



*THE PROGRESSIVE CORPORATION 2017 ANNUAL REPORT*

## ***ACCELERATION***



As Progressive continues to gain market share and grow its customer base, we intend to use that momentum to achieve our stated vision. Consistent with Newton's first law of motion, that a body in motion tends to stay in motion, we intend to harness that energy to both grow the business and strengthen our incredible culture. When we create an outstanding work environment by living our Core Values, we believe that culture extends to how our customers perceive us and ultimately how long they choose to stay. The acceleration of our company growth and the growth of our unique culture led us to the theme for this year's report. Artist Heather McGill considers her work to be an accelerator by which visual patterns are strengthened by their evolving and repeated use. Using everyday materials, such as colored plastic, thread, and lace fabric stencils, McGill reveals an extraordinary vocabulary of patterns based in ordinary origins. Spiral forms, segments, and growth structures complement these patterns, reflecting the natural language of acceleration. A selection of McGill's work will join Progressive's growing collection of contemporary art.

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#### **ABOUT PROGRESSIVE**

The Progressive Group of Insurance Companies, in business since 1937, is one of the country's largest auto insurance groups, the largest seller of motorcycle policies, the market leader in commercial auto insurance based on premiums written and, through American Strategic Insurance Corp. and subsidiaries (ASI), our majority owned subsidiaries, one of the top 20 homeowners carriers.

Progressive is committed to becoming consumers' number one choice and destination for auto and other insurance by providing competitive rates and innovative products and services that meet customers' needs throughout their lifetimes, including superior online and in-person customer service, and best-in-class, 24-hour claims service.

Progressive companies offer consumers choices in how to shop for, buy, and manage their insurance policies. Progressive offers personal and commercial auto, motorcycle, boat, recreational vehicle and home insurance. We operate our Personal and Commercial Lines businesses through more than 35,000 independent insurance agencies throughout the U.S. and directly from the Company online, by phone, or on mobile devices. Our homeowners business is underwritten by select carriers, including ASI, throughout the United States.

## FIVE-YEAR FINANCIAL HIGHLIGHTS

(billions—except per share amounts)

|  | 2017    | 2016    | 2015    | 2014    | 2013    |
|--|---------|---------|---------|---------|---------|
| <b>FOR THE YEAR</b>                    |         |         |         |         |         |
| Net premiums written                   | \$ 27.1 | \$ 23.4 | \$ 20.6 | \$ 18.7 | \$ 17.3 |
| Growth over prior year                 | 16%     | 14%     | 10%     | 8%      | 6%      |
| Net premiums earned                    | \$ 25.7 | \$ 22.5 | \$ 19.9 | \$ 18.4 | \$ 17.1 |
| Growth over prior year                 | 14%     | 13%     | 8%      | 8%      | 7%      |
| Total revenues                         | \$ 26.8 | \$ 23.4 | \$ 20.9 | \$ 19.4 | \$ 18.2 |
| Net income attributable to Progressive | \$ 1.59 | \$ 1.03 | \$ 1.27 | \$ 1.28 | \$ 1.17 |
| Per share                              | \$ 2.72 | \$ 1.76 | \$ 2.15 | \$ 2.15 | \$ 1.93 |
| Underwriting margin                    | 6.6%    | 4.9%    | 7.5%    | 7.7%    | 6.5%    |

(billions—except shares outstanding, per share amounts, and policies in force)

|  | 2017     | 2016     | 2015     | 2014     | 2013     |
|--|----------|----------|----------|----------|----------|
| <b>AT YEAR-END</b>                                   |          |          |          |          |          |
| Common shares outstanding (millions)                 | 581.7    | 579.9    | 583.6    | 587.8    | 595.8    |
| Book value per share                                 | \$ 15.96 | \$ 13.72 | \$ 12.49 | \$ 11.79 | \$ 10.39 |
| Consolidated shareholders' equity                    | \$ 9.3   | \$ 8.0   | \$ 7.3   | \$ 6.9   | \$ 6.2   |
| Market capitalization                                | \$ 32.8  | \$ 20.6  | \$ 18.6  | \$ 15.9  | \$ 16.2  |
| Return on average shareholders' equity               |          |          |          |          |          |
| Net income attributable to Progressive               | 17.8%    | 13.2%    | 17.2%    | 19.1%    | 17.7%    |
| Comprehensive income attributable to Progressive     | 21.7%    | 14.9%    | 14.2%    | 20.1%    | 19.0%    |
| <b>Policies in force (thousands)</b>                 |          |          |          |          |          |
| <b>Vehicle businesses:</b>                           |          |          |          |          |          |
| <b>Personal Lines</b>                                |          |          |          |          |          |
| Agency—auto  | 5,670.7  | 5,045.4  | 4,737.1  | 4,725.5  | 4,841.9  |
| Direct—auto  | 6,039.1  | 5,348.3  | 4,916.2  | 4,505.5  | 4,224.2  |
| Special lines  | 4,365.7  | 4,263.1  | 4,111.4  | 4,030.9  | 3,990.3  |
| Total Personal Lines                                 | 16,075.5 | 14,656.8 | 13,764.7 | 13,261.9 | 13,056.4 |
| Growth over prior year                               | 10%      | 6%       | 4%       | 2%       | 3%       |
| Commercial Lines                                     | 646.8    | 607.9    | 555.8    | 514.7    | 514.6    |
| Growth over prior year                               | 6%       | 9%       | 8%       | 0%       | (1)%     |
| Property   | 1,461.7  | 1,201.9  | 1,076.5  |          |          |
| Growth over prior year                               | 22%      | 12%      | NM       |          |          |
| Private passenger auto insurance market <sup>1</sup> | NA       | \$ 206.6 | \$ 192.8 | \$ 183.5 | \$ 174.9 |
| Market share <sup>2</sup>                            | NA       | 9.4%     | 9.0%     | 8.9%     | 8.7%     |

### STOCK PRICE APPRECIATION<sup>3</sup>

|             | 1-Year | 3-Year | 5-Year |
|-------------|--------|--------|--------|
| Progressive | 61.6%  | 30.8%  | 25.3%  |
| S&P 500     | 21.9%  | 11.4%  | 15.8%  |

NM = Not meaningful; Property business written by Progressive prior to April 2015 was negligible.

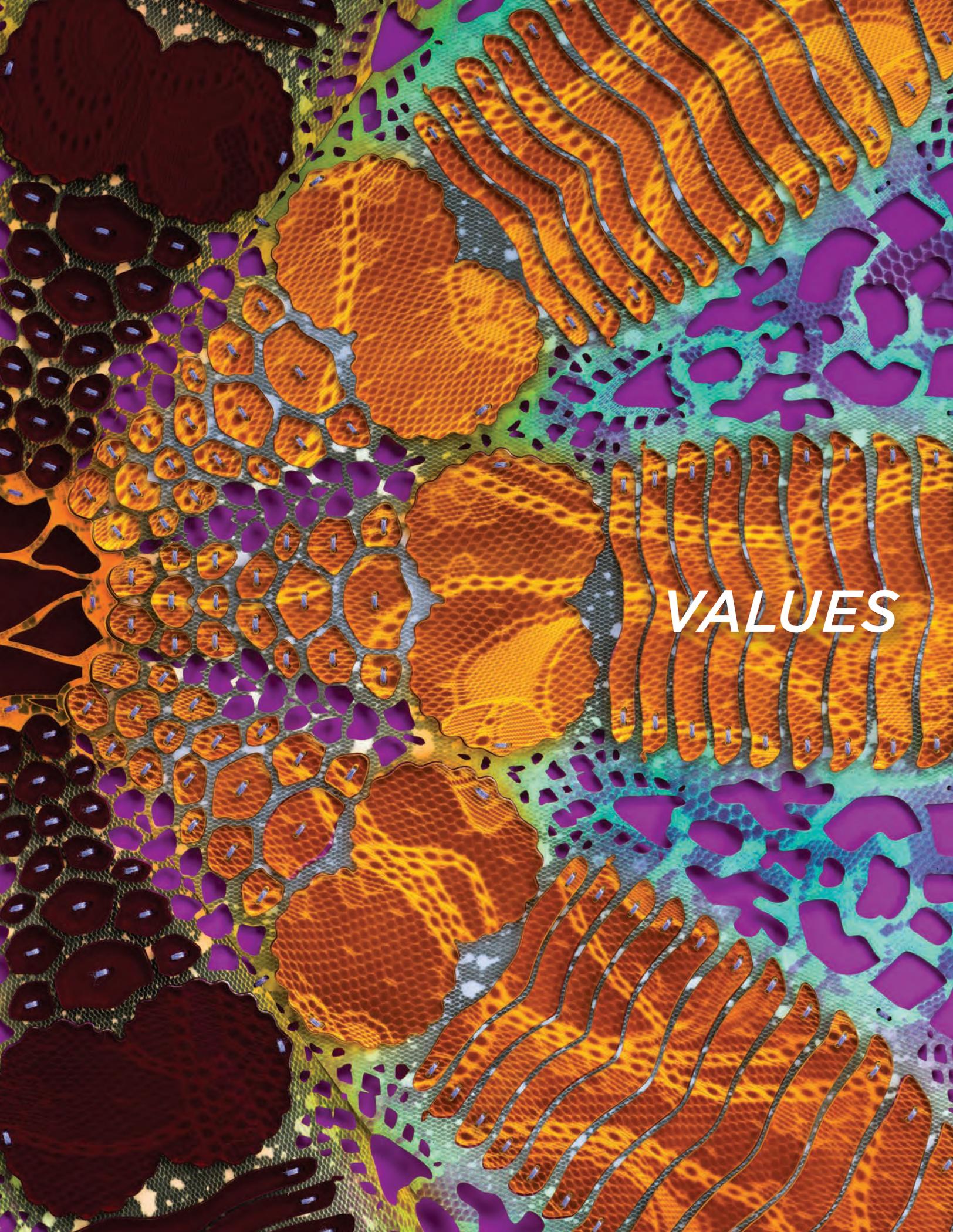
NA = Final comparable industry data will not be available until our third quarter report.

<sup>1</sup>Represents net premiums written as reported by A.M. Best Company, Inc.

<sup>2</sup>Represents Progressive's private passenger auto business, including motorcycle insurance, as a percent of the private passenger auto insurance market.

<sup>3</sup>Represents average annual compounded rate of increase and assumes dividend reinvestment.





*VALUES*

*Communicating a clear picture of Progressive by stating who we are, why we are here, where we are headed, and how we will get there permits all people associated with us to understand what we expect of ourselves and each other and how we conduct our business.*

# PURPOSE VISION +

## CORE VALUES > Who we are

Progressive's Core Values serve as the foundation for our corporate culture. They govern our decisions and define the manner in which we conduct our business and how we interact with all interested parties. We want them understood and embraced by all Progressive people.

**Integrity** We revere honesty. We adhere to high ethical standards, provide timely, accurate, and complete financial reporting, encourage disclosing bad news, and welcome disagreement.

**Golden Rule** We respect all people, value the differences among them, and deal with them in the way they want to be dealt with. This requires us to know ourselves and to try to understand others.

**Objectives** We strive to communicate clearly Progressive's ambitious objectives and our people's personal and team objectives. We evaluate performance against all these objectives.

**Excellence** We strive constantly to improve in order to meet and exceed the highest expectations of our customers, agents, shareholders, and people. We teach and encourage our people to improve performance and to reduce the costs of what they do for customers. We base their rewards on results and promotion on ability.

**Profit** We seek to earn a profit by offering consumers products and services they want. Profit is how the free-enterprise system motivates investment and rewards companies that consistently create value.

# STRATEGY

## *PURPOSE > Why we're here*

True to our name. Progressive.

## *VISION > Where we're headed*

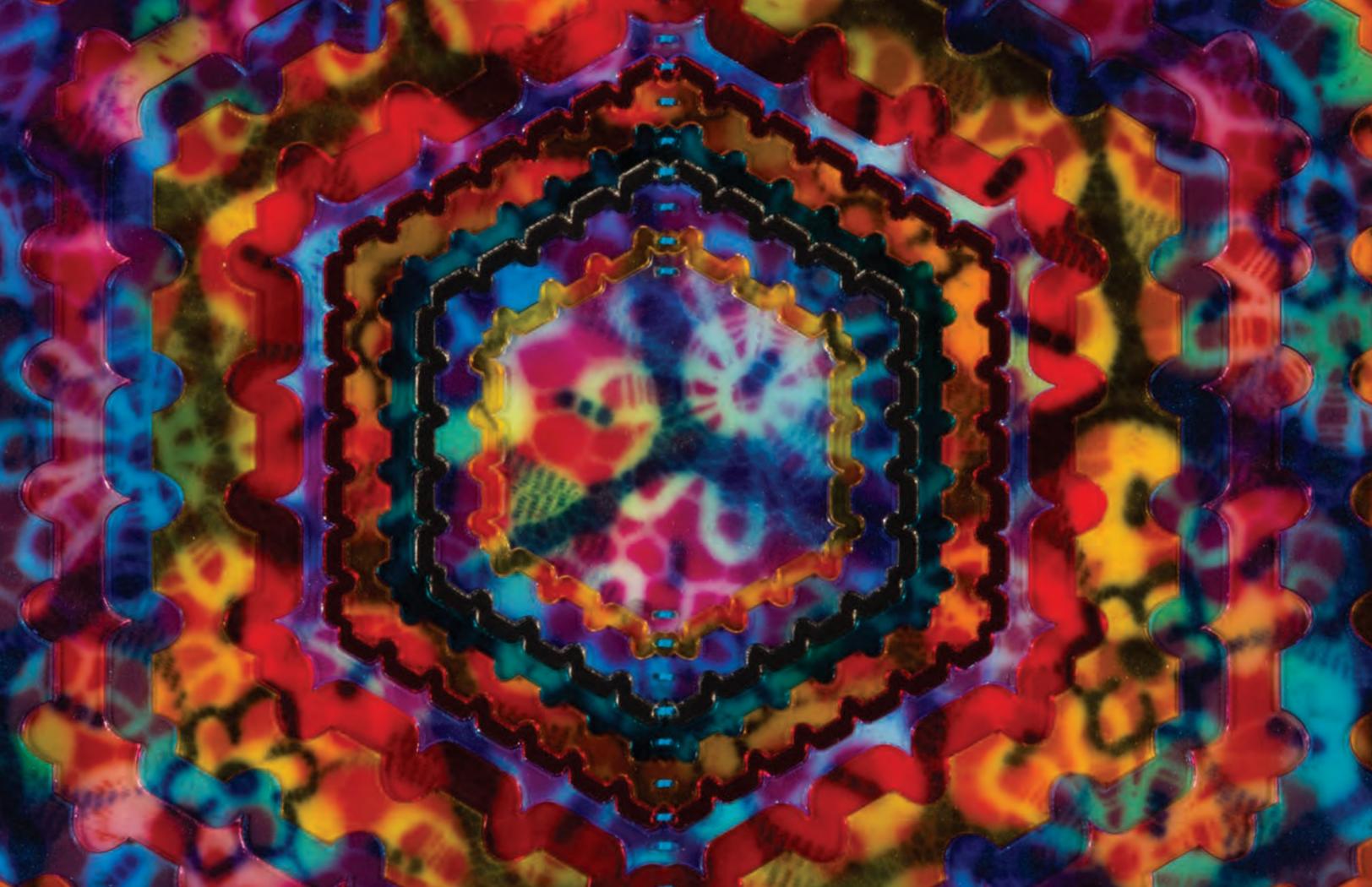
Become consumers' number one choice and destination for auto and other insurance.

## *STRATEGY > How we'll get there*

Progressive people and culture are collectively our most powerful source of competitive advantage. We will achieve our Vision by:

- maintaining a leading brand recognized for innovative offerings and supported by experiences that instill confidence;
- offering competitive prices driven by industry-leading segmentation, claims accuracy, and operational efficiency; and,
- meeting the broader needs of our customers throughout their lifetimes.









*LETTER TO*

*When reflecting on the year, as I was composing the year-end evaluations for my team, the positive adjectives flowed, but the one that I believe best describes this year is “remarkable.” We started the year with a crystal-clear plan of both what we wanted to achieve and the pace with which we wanted to achieve it knowing that we would have glitches along the way, typically coming from mother nature (she did not disappoint). The success we have achieved in growth (both written premium and unit) and profit, on both a relative and absolute basis, would be a great story on its own merit, but that is only one half of the story.*

# SHAREHOLDERS

> Thanks to our recruiting machine and leaders across the company, we hired almost 6,000 external people in 2017 after hiring over 6,600 new people in 2016. That is a massive amount of new people to onboard and train and doesn't consider all the people who are also in new leadership roles to support this growth. Many companies might implode with this growth, but we excelled and are prepared for similar increases in 2018. The theme of acceleration for this year's report seems very fitting based on what we have accomplished and our plans going forward.

## SYNOPSIS OF THE YEAR

Hurricanes Irma and Harvey mark the first time in U.S. history that two Atlantic Category 4 landfalls have occurred in the same year. Even with these unprecedented storms in two of our biggest states, we ended the year with a 93.4 combined ratio (CR) while net premiums written (NPW) grew 16%. After adding \$2.8 billion

of NPW in 2016, we added an additional \$3.8 billion in 2017, which is larger than the size of the 11th largest private passenger auto insurance company. Once again, we got out ahead of hiring to make sure that we could grow as fast as possible at or below a 96 CR and be able to provide the service our customers have come to expect. I've mentioned in past letters how proud I am that nearly every employee helped in some way with the storms, but the claims department deserves special thanks for all they accomplished for the customers we are privileged to serve.

Often, we are challenged regarding our long-standing goal of making at least four cents of underwriting profit while growing as fast as we can. If we must choose, profit (one of our five Core Values) comes before growth, with the aspiration to always have as much as we can of both in order to sustain an enduring business. This objective has been efficacious as our business model and, because of that, we do whatever we can, within reason, to protect it. In fact, our stated profit objective has been written in some form or another in every annual report since Progressive went public in 1971. That said, we have numerous products, channels, and venues, and the 4% underwriting margin goal is for the business in the aggregate. That goal permits us to make practical decisions on profitably growing the business based on the competitive landscape and allowing for reasonable returns for each product.

> Our commitment to this profitability goal continues to move us forward. Based on our estimates using statutory data through September, we think our private passenger auto programs were more profitable than all of our major competitors and about 10 points more profitable than the industry. We also believe we grew our market share by approximately half of a point to almost 10% of the market. There are occasions where the planets (high growth plus profit) align and that occurred for us in 2017.

In Personal Lines, we have created a structure that we use to help guide us in acquiring new customers, deepening our relationships with our current customers, and extending how long our customers stay with us based on our ability to satisfy them from both a product and service perspective.

Our new auto policy applications increased by 18% year-over-year and our policies in force grew 13%. Our policies in force growth in bundled customers (auto plus home, a.k.a. Robinsons) was just over 30%. Lastly, retention continues to improve with our trailing 12-month policy life expectancy (PLE) for total auto up close to 7%, with PLE in the Agency channel up about 8%.

We frequently communicate the critical importance of keeping our customers, whom we spend so much time and resources to acquire. I'm thrilled to say that we have seen a steady increase in trailing 12-month auto PLE for some time, and our focus will be to continue to make this a central component of our strategy. Our goal, in addition to having competitive rates, will be to intently focus on the relationships we have with our customers and continue to enhance them.

To that end, we've done extensive research into customer desires. We've used those insights to form our priorities, and we've made considerable investments over these past few years. These include several areas within our Customer Relationship Management organization, such as service design and delivery methods, digital transformation, advanced analytics and modeling, artificial intelligence, and machine learning. These investments are made with our customers in mind and are designed with the intent of allowing them to service their policies when, where, and how they choose, and to receive a personalized, relevant experience that gives them a reason to continue to choose Progressive as their insurance needs evolve.

On the investment side, our portfolio posted a 5.2% total return for 2017. The year was characterized by low volatility with ever rising equity prices. Interest rates for short-maturity bonds rose as the Federal Open Market Committee followed through on their predicted path of three rate hikes in 2017, while rates for bonds maturing in ten years or longer fell slightly. Strong equity portfolio returns of over 21% contributed almost half of our post-tax comprehensive investment income of almost \$825 million, despite comprising around 12% of our portfolio. Our fixed-income portfolio also performed well with a return of 3% for the year. As the yield premium we earn for holding bonds other than U.S. treasuries fell during the year, we reduced our allocation to almost all non-U.S. treasury sectors.

Our strong operating growth and maturities from our portfolio gave us plenty of new cash to invest during 2017. This created the high-class problem of finding investments that meet our criteria for quality and return. We will not relax our quality standards to pursue incremental yield. The rapid growth of our underwriting business makes our goal of protecting the balance sheet paramount.

In April, we issued \$850 million of 30-year debt to "pre-fund" the redemption in June of \$564 million of our 6.70% fixed-to-floating rate securities and to provide a little more capital to fund our profitable growth. We bought back enough stock to comply with our policy of neutralizing dilution from equity-based compensation in the year of grant, but not much more. The first question we ask, when deciding if we should repurchase stock, is if we can use our capital efficiently to grow our underwriting business. I'm thrilled that last year the answer was unequivocally yes.

We celebrated our 25th anniversary of Gainshare with a score of 1.79. This is the best result since 2004 and the 6th year in a row that the score has increased. We declared an annual dividend of \$1.1247 per share, based on 2017 results and the formula that we communicate publicly.



### *DOWN TO THE DETAILS*

After over two decades with a corporate income tax rate of 35%, we head into 2018 with a newly enacted rate of 21%. We are excited by the benefits this brings to our net income, as well as to our shareholders through adjusted valuations and application of the new tax rate to our variable dividend formula. Our effective income tax rate, which historically has been in the 32% to 33% range before tax credits, is expected to be in the neighborhood of 20%. We also continue to pay state premium taxes at a rate close to 1.6% of written premium, which amounted to more than \$400 million for 2017.

We continue to be very pleased with our newest auto product model, and it is performing very well in both channels. We continually keep a close eye on rate need and quickly react when needed. The great story on the auto side continues to be growth in the Agency channel, which had eluded us for years and now seems to be a consistent source of growth. We appreciate the close relationships that we have with our more than 35,000 independent insurance agencies and look forward to continued growth.

Our Direct business is humming along as well and we are delighted with our growth in new quotes and conversion. The prolonged hard market has helped us as shopping continues due to rate increases from our competitors. We are well-positioned with our rates and product and our customers are reacting favorably to our media messages (more on that later).



> During 2017, we had persistent favorable frequency trends that were not anticipated when we priced the auto book and this is one of the reasons underwriting margins widened. We analyze a variety of factors to separate out frequency changes specific to our book versus underlying macro trends. A few unique things we see are a change in our customer mix towards lower pure premium customers and longer trips by Snapshot® customers, who we view as representative of our entire book. We will continue to dissect our data to aid in understanding the favorable trend, should it persist.

Our special lines policies in force grew at a rate of 2% with growth coming primarily from our boat and RV businesses, while motorcycle maintained its market-leading position. The concentration of preferred customers in our special lines book of business makes it critically important to take care of these customers when infrequent losses do happen, and the 2017 catastrophe season afforded us ample opportunity to showcase our claims service. These weather losses put some pressure on our special lines margins during 2017, but we've responded and adjusted rates accordingly and, as we wrapped up 2017, we felt confident about our positioning from both a profit and growth perspective going into 2018.

The special lines markets are an important element of our Destination Era strategy, and during the year we continued to invest to maintain our leadership position through deployment of our new product version and our policy issuance and maintenance system, integration of the special lines products into our upcoming Integrated Agency Quoting (IAQ) system, and transitioning management and expansion of our manufactured home product to our Property business.

Direct premiums written (DPW) in our Property business grew 15% to \$1.35 billion. This total includes around \$100 million in flood premium, which is 100% ceded to the national flood insurance program. DPW in our home, condo, renters, and dwelling fire insurance products increased 21% to \$1.24 billion. New Property applications increased 48%, with policies in force at year end at almost 1.5 million. The Property business unit's CR was 105.1, which included about 6.7 points of amortization expenses predominately associated with the acquisition of a controlling interest in ARX.

Storm activity was well above previous years in 2017. In our auto programs, we price for storm losses using a "load" based on average storm losses over a reasonable trailing-year period, generally in the 5- to 10-year range. Storm losses in 2017 exceeded that load substantially. We have already adjusted pricing to address half that gap and plan to take further actions to ensure price adequacy as warranted.

In our Property business, we employ both occurrence-based and aggregate-based reinsurance. Hurricane Irma was a large event for ASI with more than 28,000 claims reported. Irma losses in excess of \$50 million were ceded to reinsurers; therefore, Irma contributed only 5.1 points to the 2017 Property combined ratio. Losses from Hurricane Harvey were under our reinsurance threshold and contributed 1.7 points to the Property results. In addition to the hurricanes, 2017 was a very active year for severe thunderstorms, which include hail storms, with industry catastrophe losses from severe thunderstorms more than 60% above the 20-year average. Losses from severe thunderstorms had a far bigger impact on our Property results in 2017 than named storms and added 25.6 points to the Property combined ratio for the year, which is net of the \$5 million recoverable we had under our aggregate stop-loss reinsurance agreement.

While recent storm activity may modestly raise pricing levels in the reinsurance market, we plan to continue to employ a robust reinsurance program for our Property business and we plan to remain diligent in ensuring the costs of this program are expeditiously reflected in our pricing. We plan to also remain diligent in employing an adequate load component for storm losses in our vehicle businesses. These tactics help to ensure that we hit our 96 combined ratio target and produce attractive returns on our capital, and that we do so with modest variation across the year.

Our Commercial Lines profitability and growth continued to outperform the industry and we finished the year writing over \$3 billion in NPW. We continue to closely monitor and react to rate need, especially in states and business tiers where we are running close to or above our target profit margins.

We are acutely aware that this market is very volatile and it can be a challenge to profitable growth. We feel great about our ability to deliver nonetheless. As we expand our transportation network company business and build knowledge in this growing area, we plan to manage our policy portfolio risk and grow at a level that doesn't outstrip our claims or customer service capabilities or our ability to understand any mix changes in business we are writing.

Throughout the past several years, we have clearly outlined our approach of how we will accomplish becoming a destination for our insureds and we are quite satisfied with our results. Having ASI (which will be transitioned to the Progressive brand over the next few years) as our exclusive homeowners carrier in our agency channel, and one of a strong stable of carriers in our direct channel, has been a key part of attracting customers who prefer their needs be met by the same company.

> We are relishing in the momentum of our growth in our auto/home bundled customers we refer to as Robinsons in both channels. During 2017, we grew Robinsons policies in force more than twice as fast as our other consumer segments creating over 45% more bundles in 2017 than in 2016.

The Progressive Advantage Agency's (our direct in-house agency) focus was to continue to design sales experiences and build operations that support the graduation to Robinsons. We grew staff in the agency by 80% to support our growth both on the phones and online. The growth in staff was a blend of internal and external talent as we attracted skill sets from the financial and insurance sectors, many with property experience. Robinsons policies in force grew via the Progressive Advantage Agency was just over 80% year-over-year.

We recently received this compliment from a customer who we would classify as a Diane (think renter who is saving for life events) who graduated to a Robinson. Although this is only a sample from one customer, we are enjoying our journey of being the company where customers can have nearly all of their insurance needs met.

*I have been with Progressive since 2011 and I just wanted to praise you all. A couple years ago I added my girlfriend (now wife) Jenna to my policy so we could save money. I bought a house last year and signed up with Progressive for home insurance and saved more money. We just had our wedding and changed her to my spouse and saved more money again. We bought a car 2 weeks ago and it only increased our insurance by \$13/month. I never go out of my way to praise a company but I've been so pleased with Progressive over the years I just wanted to say...thank you. Thank you for being there.*

Not only do our customers transition over time, but so does our management team. In January 2018, John Auer, President and CEO of ARX Holding Corp., announced his retirement, effective April of 2018. At that time, he will become the Chairman of ARX. The Progressive and ARX integration has gone very smoothly largely due to John's leadership, vision, and values. Dave Pratt, a long-time Progressive leader, will take over the reins at ARX with the predominance of John Auer's team reporting directly to him. Dave has been at Progressive for 27 years leading a variety of roles including Auto General Manager, Chief Marketing Officer, and most recently Usage-Based Insurance leader.

We are also transitioning some of our claims processing. The Service Center has been part of our claims operating model for almost two decades. Over that time, we have evolved the model to reflect both internal claims process and external environmental changes. As we accelerate into our next claims operating model, we believe that moving away from our Service Center communities to a Network Shop operation will benefit all of our key constituents. Our customers, based on us strengthening our relationships with our network shops, now rate the Network Shop experience as high as our Service Center experience. Allowing our customers to drop off and pick up their vehicles at a shop that is likely closer to their home or work will improve their overall experience. For our employees, moving to a Network operation will provide more certainty around start and finish times, as well as provide multiple career opportunities for future growth as our photo estimating volume increases. Finally, for our shareholders, this evolution of our model is expected to improve our operating efficiency without any loss to claims accuracy or customer service.

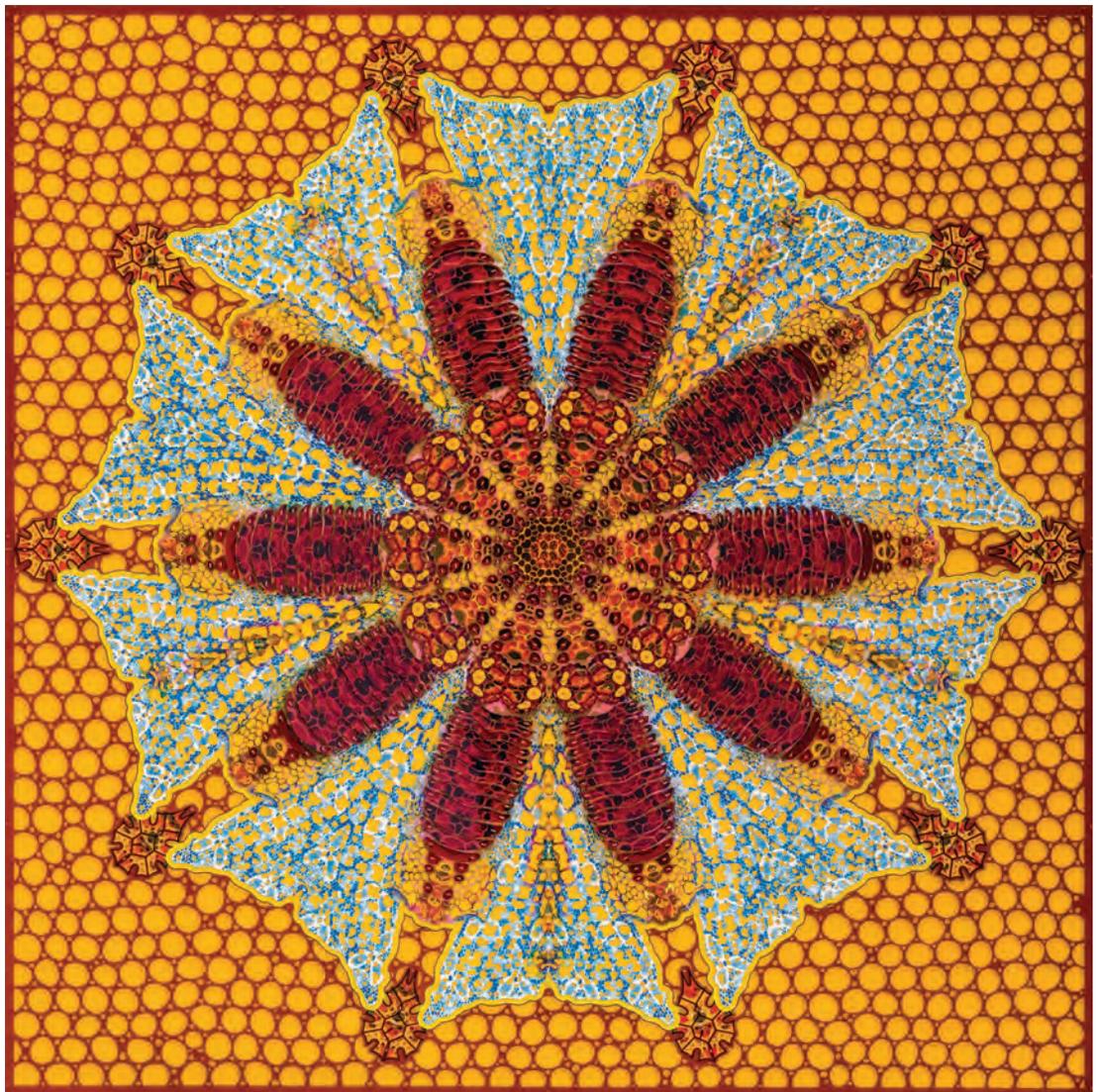
The biggest development in our Snapshot® program during 2017 was our completion of the rollout of the Snapshot mobile app that we introduced in late 2016. The app provides consumers with an alternative to the hardware-based method of collecting data for the program, simplifying the experience for consumers and lowering Progressive's costs. The Snapshot mobile app is now available to Direct and Agency consumers in 42 states and the District of Columbia. Results to date have been encouraging, with the availability of the mobile app increasing the number of customers choosing to enroll in Snapshot and nearly half of those enrolling selecting the mobile app when it's available. Even though much of the deployment happened in the latter half of 2017 and volume continues to ramp up, we've already collected over 33 million trips and 300 million miles driven via the mobile app.

### STRATEGIC PILLARS

Our Strategy focuses on our unique culture, well-known brand, competitive pricing, and our ability to meet the broader needs of our customers throughout their lives. We think about this when we design our products, services, and marketing messages.

**Culture:** With the amount of hiring we have completed in the past few years and more on the way, we thought it was time to showcase our company and culture and to show job seekers who we are and ask them in a creative way to “Rethink Progressive.” Our culture is something that most people, even after a few weeks of being employed here, say they did not expect, so the campaign is aptly named “Unexpectedly Progressive.” It is designed to address the common misconceptions of insurance but, more specifically, Progressive insurance. It highlights our legacy of blending technology, art, and science with our unique culture, and it appeals to people looking for an exciting career in technology or quantitative analytics.

**Brand:** Celebrating 10 years, Flo and the Superstore continue to be our high-performing, value-driving campaign. This anchor program, within our broader content network strategy, grew this year with the introduction of fresh story arcs and the addition of a new cast of characters. We also expanded message mix beyond price to include protection and problem-resolution propositions to broaden brand appeal.



> Even with an extremely successful Superstore campaign, we continue to diversify our creative content. Growing our focus on young homeowners, we launched a second round of “Parentamorphosis” (how you become your parents when you buy your first home) creative this year, which continues to be a top performer across both mass media and digital channels.

The success of our homeowner/bundle messaging continued into 2017. Good progress, that we believe will only accelerate, as we continue the balance of work in a market designed to support both our growing customer base and our customers’ desire to stay and grow with us.

When we dissect the performance of our ads in 2017, home messaging continues to outperform the other categories in driving new quotes for both auto and home. What’s most exciting is our diversity of messaging and subsequent success. We had four different campaigns and messages with all four showing success in both home and auto, which confirms that our messages and creative are resonating with consumers. Given the success of these messages, comparing 2017 to 2015 (if you recall we pulled back on advertising slightly in 2016), we are more than doubling our impressions against the homeowner/bundle category. Our increased focus on premium programming has helped us to get these messages out to more potential Progressive Robinsons at costs that still allow us to deliver on our target economics.

From a volume perspective, we had a very strong year in Direct auto. We entered our fifth consecutive year of new quote growth. Sales have been even stronger. We had 16% growth in new applications in 2017, which was also our fifth consecutive year of new application growth. We have strung together four years of new app growth a couple times since 2002, but this is the first time we have had five years. The five-year compounded average growth rate is 11%. Given our strong position in the market and increase in media spend, I expect us to deliver a sixth consecutive year of growth for both new quotes and applications.

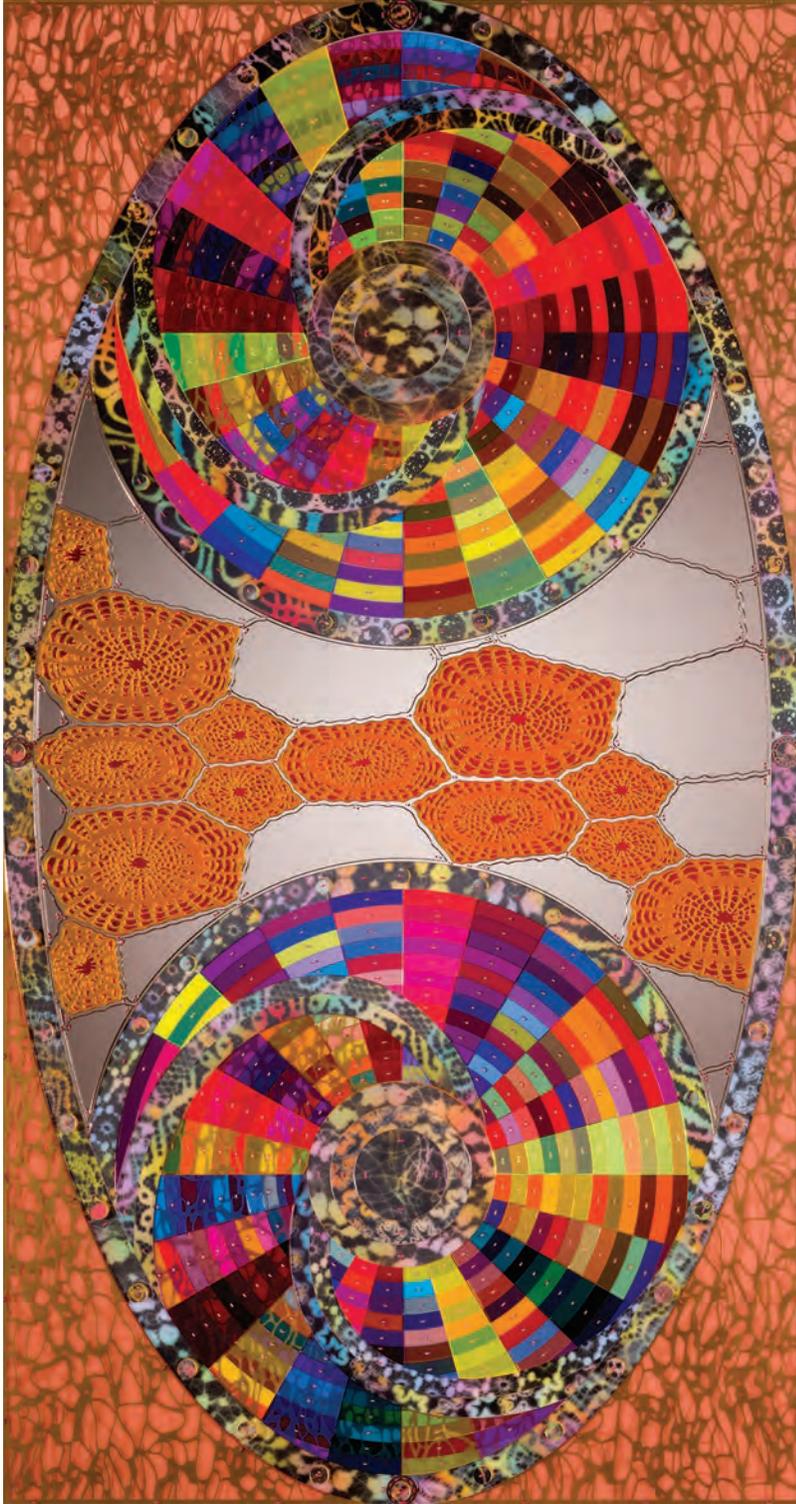
**Competitive Prices:** Our focus here has always been on efficiency, claims accuracy, and segmentation. Of recent times, we have spoken more about segmentation and accuracy, which we believe are strengths of ours, so for this communication I’d like to comment more on the importance of efficiency.

We know that price matters and the companies that will win, in the long-run, are the ones that have a competitive cost structure, and much of that comes from operational efficiency defined as both our general expense ratio plus loss adjustment expenses (LAE).

Our expense ratio for our Personal Lines business is now consistently below 20 points, which, while not the lowest in the industry by design, is quite competitive. Personal auto represents around 90% of that business and, for personal auto, advertising and agent commissions (acquisition costs) make up more than half of our expense ratio. We are happy to spend more on acquisition costs as long as we grow commensurately. We believe that driving non-acquisition expenses down, while maintaining high service levels, is a strong path to competitive prices. We have taken out more than half a point of non-acquisition expenses over the course of the last three years and are focused on continuing to reduce these expenses.

We continue to work on initiatives to reduce adjusting costs per claim and the resulting paid LAE ratio. Our objective has always been to focus on total costs of indemnity plus LAE, so any efficiency improvements we may make relative to claims adjusting must be evaluated against potential changes in indemnity accuracy.

Our strategic claims agenda has long focused on what we refer to as our Guiding Principles of Accuracy, Efficiency, Customer Service, and Work Environment. We consider all critical to our claims organization, and measure the effect of any change to claims operations across all four. New initiatives may not move every Guiding Principle in a favorable direction; however, appropriately assessing the trade-offs allows the claims organization to make the most effective process improvement investments.



As an example, hiring the amount of people that we have in advance of need put pressure on the LAE side, but we believe it has had favorable results on our Accuracy, Customer Service, and Work Environment. We'd take that trade-off every day.

That said, we're excited about the investments that we made in 2017 in claims technology and process improvements and expect to see the positive results of those on the efficiency side in the coming years.

**Meeting the broader needs of our customers:**

In July, we announced a new online platform called HomeQuote Explorer® (HQX). HQX allows homeowners to quickly and easily compare home insurance quotes from multiple carriers to find the best option to protect their homes. We leveraged the formula that we used two decades ago when we put the power of comparison shopping in the hands of auto insurance customers.

HQX helped drive online home and condo new application growth of 49%. We have enhanced the experience in HQX and with it sales yield has improved over 50% since we initially rolled out the platform.

We made significant investments to make the system simple for customers by pulling in publicly available information on a property to save the homeowner time, and providing an easy-to-use series of prompts to help the user enter other required information.

For the last 10 years, Flo has represented the nearly 34,000 employees who serve our customers each and every day. In 2017, we were able to bring all Flo represents in broadcast into the digital world and continue our long legacy of innovation by being the first top 10 U.S. insurance company to allow users to start an auto quote via a Flo Chatbot experience in Facebook Messenger. We look forward to expanding that functionality and foundation in 2018 as we strive to provide easy and innovative experiences for current and prospective customers.

#### WHAT'S ON THE HORIZON(S)

Previously during an investor webcast, I shared some detail into our growth horizons and how we think about growing the current business, mid-term opportunities, and long-term investments. The main essence of this construct is that we must invest in all three horizons to be an enduring company. We accept that challenge with excitement and eagerness as we seek to be the company with the mantra of “always grow” philosophy. That way of thinking has been an unrelenting part of who we are at Progressive.

As we contemplate the future, knowing that there will be considerable changes to our industry and other industries adjacent to ours, we must think about both expanding our addressable market by leveraging our strengths, but also by exploring new horizons that we haven't considered in the past.

With that, and to formalize work being done in several areas within the company, we have assembled an internal Strategy Council. The council will work side-by-side with me and John Sauerland, our CFO, to assess the changing landscape. We have invested, and will continue to invest, in whatever we think it will take to ensure we have the opportunity to grow profitably for many decades to come. Much more to come on this in the next several years.

#### PURPOSE AND PRIDE

My belief is that when you devise and then pen statements like missions and visions they should be something that the entire company can easily recall, relate to, and reflect upon as they go about their day-to-day work. My senior leadership team and I all agreed that the company's Core Values, Vision, and Strategy met this test and have been effective in guiding the company's performance for many years. However, we felt that something else was needed to reflect how the company has evolved in light of our Destination Era strategy. We decided that it would be valuable to create a pithy statement to reflect our purpose.

We generated several statements through a series of focus groups and ultimately came up with two that we thought reflected why we are here. We asked every Progressive and ASI employee to vote and, although it was very close, the winner was “**True to our name. Progressive.**” Many employees have told me that they felt that statement was the best choice because it accurately reflects what our name stands for — forward motion, accelerated movement toward a destination, and striving to do things better.

This year also marks the 25th anniversary of Gainshare, our annual incentive program that is available to all employees and promotes a common culture and rewards employees when annual business goals and objectives are achieved. Payouts can range from 0 to 2 times a target amount under this program. We've certainly come a long way from giving each employee a crisp \$100 bill. I vividly recall the excitement in my small claims branch because it was the first time many of us had ever held a hundred-dollar bill. I just remember feeling grateful and proud that I worked for a company who did that sort of thing for its people. For 2017, employees received 1.79 times their target payout amount, which for our median employee equated to a payout of just over \$8,100. That pride continued when we decided in 2007 to extend Gainshare to our shareholders via our annual variable dividend. Aligning the interests of the employees and shareholders, and sharing when we make gains, are essential parts of who we are as a company.

In November, we held our fifth annual Keys to Progress® events to publicly recognize those who have dedicated their lives to serving our country and communities. Together with many of our partners, we donated refurbished vehicles to more than 100 recipients—including our 500th car since the program's inception in 2013. This is always a proud day at Progressive and one of the many ways we make our new purpose statement come to life.

As we wrap up another year, I want to reiterate one additional time how honored I am to work with the almost 34,000 Progressive people who make being true to our name something that we will strive to bring to life each day.

Thank you for all that you do.



Tricia Griffith  
President and Chief Executive Officer



An aerial photograph of a landscape with vibrant, wavy patterns in shades of green, blue, and purple. A network of roads, highlighted in a light tan color, crisscrosses the terrain. The text "OBJECTIVES +" is centered in white, bold, sans-serif font. The overall composition is dynamic and colorful, suggesting a complex or abstract environment.

**OBJECTIVES +**

*Consistent achievement of superior results requires that our people understand Progressive's objectives and their specific roles, and that their personal objectives dovetail with Progressive's. Our objectives are ambitious, yet realistic. Progressive monitors its financial policies continuously and strives to meet these targets annually. Experience always clarifies objectives and illuminates better policies. We constantly evolve as we monitor the execution of our policies and progress toward achieving our objectives.*

# POLICIES

## OBJECTIVES

**Profitability** Progressive's most important goal is for our insurance subsidiaries to produce an aggregate calendar year underwriting profit of at least 4%. Our business is a composite of many product offerings defined in part by product type, distribution channel, geography, customer tenure, and underwriting grouping. Each of these products has targeted operating parameters based on level of maturity, underlying cost structures, customer mix, and policy life expectancy. Our aggregate goal is the balanced blend of these individual performance targets in any calendar year.

**Growth** Our goal is to grow as fast as possible, constrained only by our profitability objective and our ability to provide high-quality customer service. Progressive is a growth-oriented company and management incentives are tied to profitable growth.

Aggregate expense ratios and growth rates disguise the true nature and performance of each business. As such, we report Personal Lines, Commercial Lines, and Property business results separately. We further break down our Personal Lines' results by channel (Agency and Direct) to give shareholders a clearer picture of the business dynamics of each distribution method.

## FINANCIAL POLICIES

Progressive balances operating risk with risk of investing and financing activities in order to have sufficient capital to support all the insurance we can profitably underwrite and service. Risks arise in all operational and functional areas, and, therefore, must be assessed holistically, accounting for the offsetting and compounding effects of the separate sources of risk within Progressive.

We use risk management tools to quantify the amount of capital needed, in addition to surplus, to absorb consequences of events such as unfavorable loss reserve development, litigation, weather-related catastrophes, and investment-market corrections. Our financial policies define our allocation of risk and we measure our performance against them. We will invest capital in expanding business operations when, in our view, future opportunities meet our financial objectives and policies. Underleveraged capital will be returned to investors. We expect to earn a return on equity greater than its cost. Presented is an overview of Progressive's Operating, Investing, and Financing policies.

### Operating

#### **Maintain pricing and reserving discipline**

- Manage profitability targets and operational performance at our lowest level of product definition
- Sustain premiums-to-surplus ratios at efficient levels, and at or below applicable state regulations, for each insurance subsidiary
- Ensure loss reserves are adequate and develop with minimal variance

### Investing

#### **Maintain a liquid, diversified, high-quality investment portfolio**

- Manage on a total return basis
- Manage interest rate, credit, prepayment, extension, and concentration risk
- Allocate portfolio between two groups:
  - Group I: Target 0% to 25% (common equities; nonredeemable preferred stocks; redeemable preferred stocks, except for 50% of investment-grade redeemable preferred stocks with cumulative dividends; and all other non-investment-grade fixed-maturity securities)
  - Group II: Target 75% to 100% (short-term securities and all other fixed-maturity securities)

### Financing

#### **Maintain sufficient capital to support insurance operations**

- Maintain debt below 30% of total capital at book value
- Neutralize dilution from equity-based compensation in the year of issuance through share repurchases
- Use underleveraged capital to repurchase shares and pay dividends (special or variable based on annual underwriting results)

## OBJECTIVES + POLICY SCORECARD

| FINANCIAL RESULTS                                  |                            | Target | 2017  | 2016   | 2015   | 5 Years <sup>1</sup> | 10 Years <sup>1</sup> |
|--|----------------------------|--------|-------|--------|--------|----------------------|-----------------------|
| Underwriting margin                                | - Progressive <sup>2</sup> | 4%     | 6.6%  | 4.9%   | 7.5%   | 6.6%                 | 6.5%                  |
|  | - Industry <sup>3</sup>    | na     |       | (5.9)% | (4.1)% | (3.0)%               | (1.6)%                |
| Net premiums written growth                        | - Progressive              | (a)    | 16%   | 14%    | 10%    | 11%                  | 7%                    |
|  | - Industry <sup>3</sup>    | na     |       | 7%     | 5%     | 5%                   | 3%                    |
| Policies in force growth                           | - Personal auto            | (a)    | 13%   | 8%     | 5%     | 6%                   | 5%                    |
|  | - Special lines            | (a)    | 2%    | 4%     | 2%     | 2%                   | 3%                    |
|  | - Commercial Lines         | (a)    | 6%    | 9%     | 8%     | 4%                   | 2%                    |
|  | - Property                 | (a)    | 22%   | 12%    | nm     | nm                   | nm                    |
| Companywide premiums-to-surplus ratio              | (b)                        |        | 2.8   | 2.7    | 2.7    | na                   | na                    |
| Investment allocation                              | - Group I                  | (c)    | 17%   | 18%    | 20%    | na                   | na                    |
|  | - Group II                 | (c)    | 83%   | 82%    | 80%    | na                   | na                    |
| Debt-to-total capital ratio                        |                            | <30%   | 26.3% | 28.3%  | 27.1%  | na                   | na                    |
| Return on average shareholders' equity             |                            |        |       |        |        |                      |                       |
| - Net income attributable to Progressive           | (d)                        |        | 17.8% | 13.2%  | 17.2%  | 16.9%                | 15.7%                 |
| - Comprehensive income attributable to Progressive | (d)                        |        | 21.7% | 14.9%  | 14.2%  | 18.0%                | 17.2%                 |

(a) Grow as fast as possible, constrained only by our profitability objective and our ability to provide high-quality customer service.

(b) Determined separately for each insurance subsidiary.

(c) Allocate portfolio between two groups:

Group I – Target 0% to 25% (common equities; nonredeemable preferred stocks; redeemable preferred stocks, except for 50% of investment-grade redeemable preferred stocks with cumulative dividends; and all other non-investment-grade fixed-maturity securities)

Group II – Target 75% to 100% (short-term securities and all other fixed-maturity securities)

(d) Progressive does not have a predetermined target for return on average shareholders' equity.

na = not applicable

nm = not meaningful; Property business written by Progressive prior to April 2015 was negligible.

<sup>1</sup>Represents results over the respective time period; growth represents average annual compounded rate of increase (decrease).

<sup>2</sup>Expressed as a percentage of net premiums earned. Underwriting profit is calculated by subtracting losses and loss adjustment expenses, policy acquisition costs, and other underwriting expenses from the total of net premiums earned and fees and other revenues.

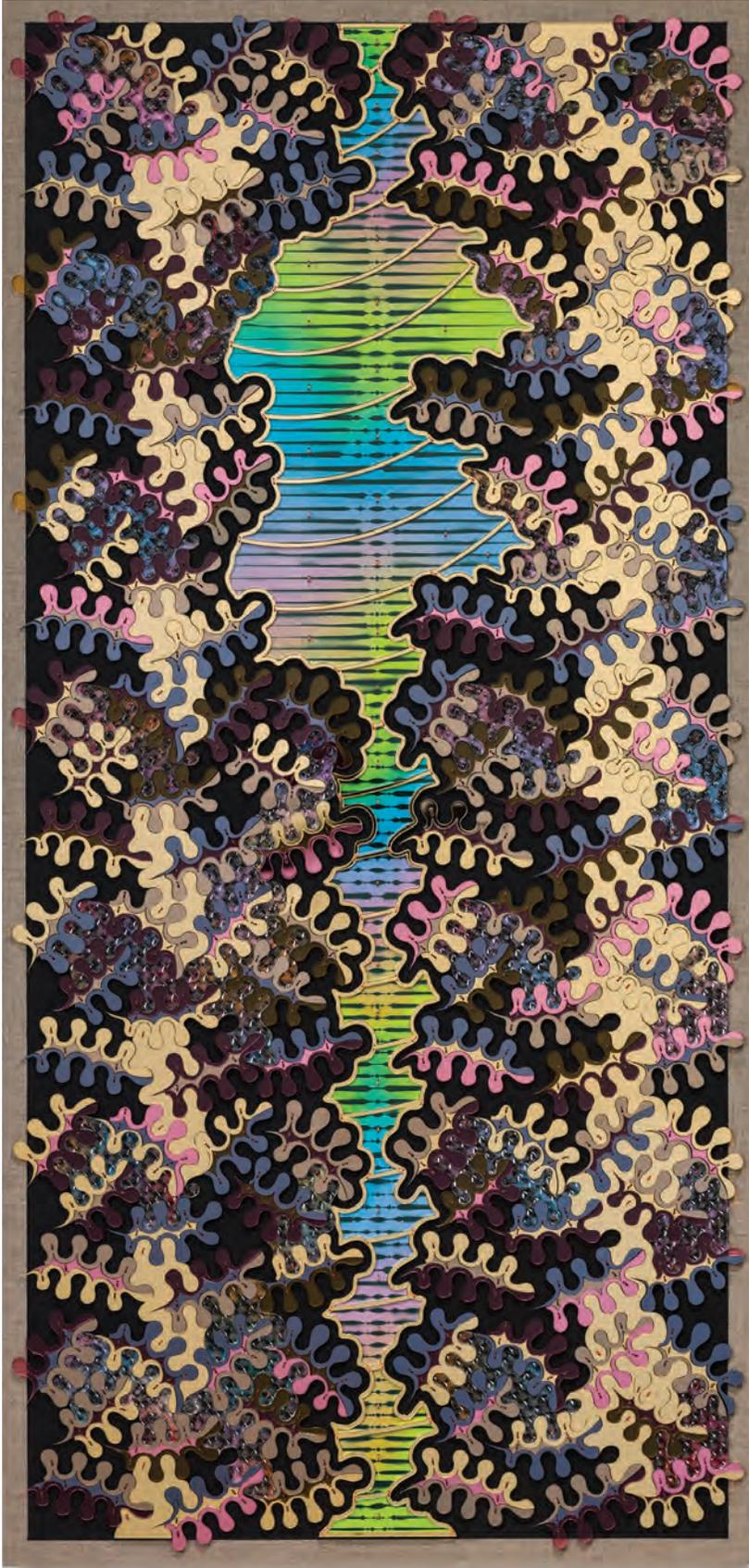
<sup>3</sup>Industry results for 2016 and 2015 represent private passenger auto insurance market data as reported by A.M. Best Company, Inc. The industry underwriting margin excludes the effect of policyholder dividends. Final comparable industry data for 2017 will not be available until our third quarter report. The 5- and 10-year growth rates are presented on a one-year lag basis for the industry.

## ACHIEVEMENTS

We are convinced that the best way to maximize shareholder value is to achieve these financial objectives and policies consistently. A shareholder who purchased 100 shares of Progressive for \$1,800 in our first public stock offering on April 15, 1971, would have owned 175,573 shares, including dividend reinvestment, on December 31, 2017 with a market value of \$9,888,271, for a 20.2% compounded annual return, compared to the 10.5% return achieved by investors in the S&P 500 during the same period.

In the ten years since December 31, 2007, Progressive shareholders have realized compounded annual returns, including dividend reinvestment, of 14.7%, compared to 8.5% for the S&P 500. In the five years since December 31, 2012, Progressive shareholders' returns were 25.3%, compared to 15.8% for the S&P 500. In 2017, the returns were 61.6% on Progressive shares and 21.9% for the S&P 500.

We have consistently paid dividends since we went public in 1971. Assuming dividends were not reinvested, a shareholder who bought 100 shares at the initial public offering would now hold 92,264 shares and would have received cumulative dividends of \$881,054 including \$62,813 in 2017. In addition to paying dividends, over the years when we have had adequate capital and believed it to be appropriate, we have repurchased our shares. As our Financial Policies state, we will repurchase shares to neutralize the dilution from equity-based compensation programs and return any underleveraged capital to investors. During 2017, we repurchased 1,501,853 common shares. The total cost to repurchase these shares was \$63 million, with an average cost of \$41.62 per share. Since 1971, we have spent \$9.0 billion repurchasing our shares, at an average cost of \$7.42 per share.



## OUR BUSINESS MODEL

For us, a 96 combined ratio is not a “solve for” variable in our business model equation, but rather a constant that provides direction to each product and marketing decision and a cultural tipping point that ensures zero ambiguity as to how to act in certain situations. Set at a level we believe creates a fair balance between attractive profitability and consumer competitiveness, it’s deeply ingrained and central to our culture.

*With clarity as to our business constant, we seek to maximize all other important variables and support with appropriate axioms:*

**Grow as fast as we can** subject to our ability to provide high-quality service. Our preferred measure of growth is in customers, best measured by policies in force.

**Extend policy life expectancy.** Our preference is for the flexibility of shorter policy periods, highlighting, however, the importance of retaining customers at policy renewal. As part of our Destination Era strategy, our focus is inclusive of all points throughout a customer’s tenure and is a never-ending focus, tailored for every consumer segment.

*Clarity as to our objectives means other elements of the business model must be appropriately designed to strongly support, but not necessarily amplify, the risk of maximizing all things at the same time. Our articulation of our most critical investment objective is a good example:*

**Invest in a manner that does not constrain our ability to underwrite all the profitable insurance available to us at an efficient premiums-to-surplus leverage.** We often refer to underwriting capacity as the protected asset and for us it is a clear determination of where the risk of leverage is best allocated.

*The importance of net income, earnings per share, and return on equity is never lost on us, but we view achieving strong, long-term performance of these measures as stemming from our consistent focus on the primary elements of our business model.*



*OPERATIONS*

*We write personal and commercial auto insurance, residential property insurance, and other specialty property-casualty insurance and provide related services throughout the United States. Our Personal Lines segment writes insurance for personal autos and recreational vehicles. Our Commercial Lines segment writes primarily liability and physical damage insurance for automobiles and trucks owned and/or operated predominantly by small businesses. Our Property segment writes insurance for single family homes, condominium units, etc. for homeowners, other property owners, and renters. We distribute our products through both the Agency and Direct channels.*

# SUMMARY

## PERSONAL LINES

Our operating philosophy is to grow as fast as possible, subject to the constraints of our 96 combined ratio goal and our ability to provide excellent customer service. While this philosophy is unwavering, as we reported last year, market conditions and weather volatility can result in varied outcomes from year-to-year and, in 2017, market conditions were very favorable for profitable growth of our Personal Lines business. Unlike 2016 when the combination of lower underlying margins and abnormally high weather-related losses forced us to temporarily pull back on some advertising late in the year, our rate increases during 2016 positioned us well for 2017, where weather started off like a lamb and went out like the proverbial lion with our two largest states getting hit by category 4 hurricanes during the third quarter.

2017 was an outstanding year for Personal Lines by all key performance indicators. Profitable growth (in that order) is our primary performance metric and Personal Lines ran at just over a 93 combined ratio and grew premiums written 16% during the year. The year-over-year profitability improvement was driven primarily by loss ratio improvements, while loss adjustment expenses were flat and our expense ratio climbed slightly due primarily to increases in our advertising spend. The loss ratio improvement is particularly impressive given we incurred just over \$500 million in Personal Lines catastrophe losses this year, up nearly 40% over 2016. Our loss ratio improvement was driven by the combination of increasing auto rates about 3%, and benign pure premium trends resulting from our product and underwriting models attracting and retaining lower pure premium customers. We aspire to provide a rate for every risk, however, we also recognize that there are segments within the market who don't use our products as intended, or for whom our current product model doesn't adequately price, and underwriting these risks out of our book enables us to offer more competitive prices for the vast majority of consumers. We continued to advance our auto underwriting models and move variables from underwriting into rating during 2017. This powerful combination ensures we initially block auto risks that we're unable to accurately price, and follow up by pricing for many of these segments in our next product releases. These product and underwriting advancements helped us increase new auto policies written 18% during the year, increase total Personal Lines policies in force 10%, and add well over a million new Personal Lines customers, which contributed to more than \$3 billion additional premiums written during the year.

> Consumers rarely switch auto insurance companies to pay more for coverage, and that recognition drives our relentless focus on providing consumers greater value for their premium dollar through enhanced segmentation, claims accuracy, and lower operating expenses. During the year, we continued to grow premiums faster than our overhead costs, successfully reducing our Personal Lines non-acquisition expense ratio by 4%. Savings messages are pervasive in insurance marketing today and we're pleased to report that new customers who saved money by switching to Progressive during 2017 saved more money doing so than in any previously reported period. Competitive rates are a key pillar of our strategy and during 2017 we continued to advance the science of matching rate to risk. At the end of 2017, our latest auto product model was available in 36 states, nearly triple the number of states we were in the prior year, which represented almost 75% of eligible households. We closely monitor the performance of our new product models and are pleased to report that the latest model is delivering higher conversion and retention rates at our target new and renewal profit margins.

A key element of matching rate to risk is our Snapshot<sup>®</sup> usage-based insurance program, and we've now collected more than 22 billion miles of driving data. Optimizing the presentation of Snapshot to increase participation continues. During the year, we expanded the mobile app version of Snapshot to 42 states and the District of Columbia and we continue to see more and more of our eligible customers opting for the app-based solution instead of the traditional hardware-based version. The mobile-app data affords us a unique perspective on mobile device usage, vehicle operation, and accidents, and work commenced this year to build a mobile-app version of our usage-based rating algorithm that includes device usage parameters.

We've consistently invested to ensure consumers can shop for, purchase, and own Progressive policies where, when, and how they choose. These investments have driven our personal auto premiums written above \$20 billion during 2017 and we're thrilled to see both our Agency and Direct businesses thrive in the highly competitive Personal Lines marketplace. Considered separately, our Agency and Direct businesses each would be one of the top seven U.S. auto insurance companies. During the year, both Agency and Direct Personal Lines grew premiums written 16% at combined ratios of 93 and 94, respectively; phenomenal performance given the competitive nature of the U.S. private passenger auto market.

Our Agency auto business delivered 17% growth in premiums written at a 93 combined ratio. New policies written grew more than 20% and policies in force increased double digits during the year. Consistent with prior periods, we continue to grow our Agency footprint. In 2017, we added more than 1,500 new agencies, while simultaneously investing to increase productivity from agencies, and cut the time from appointment to first policy produced by almost half. Our Agency auto new policy growth was driven equally by increases in demand from agents (as indicated by increasing quote volume) and better meeting the needs of end consumers (as indicated by higher conversion). While quote volumes originating from both our proprietary systems and comparative raters increased, similar to 2016, the increases on our proprietary systems were greater, indicating that agents are increasingly coming to us first to meet their clients' needs. Conversion was also higher on quotes originating from both systems, although comparative rater conversion increased significantly faster, another indication of our more competitive product offerings. We experienced double-digit new application growth across all consumer segments in Agency, with solid growth across Sams, Dianas, and Wrights, and our investment in more available and competitive bundled auto and home products resulted in explosive Robinsons new auto application growth more than five times faster than our other segments in the aggregate (albeit still on a smaller base). Many of these Robinsons new applications originated from our Platinum agents, who more than doubled bundles created during the year.



We're thrilled to see our Platinum program continue to thrive as evidenced by Platinum agents producing four times the monthly bundle volume of our non-platinum property agents. Our more competitive product offering also helped improve retention across all consumer segments, which drove up the trailing 12-month policy life expectancy more than 7%. New application growth, combined with PLE improvements, grew auto policies in force double digits across all consumer segments and the strong Robinsons new application growth in 2016 and 2017 resulted in Robinsons policies in force growth that was more than four times faster than within our other tiers.

Our Direct auto business continued its strong track record of profitable growth by delivering 16% premium growth at a 94 combined ratio. Premium growth resulted from the combination of 13% policies in force growth and average premium increases resulting from rate and mix changes. Direct auto policies in force growth was driven by 16% new application growth and a 4% increase in trailing 12-month policy life expectancy resulting from higher renewal rates and lower mid-term cancellation rates. For the full year of 2017, we leveraged enhanced segmentation across media channels in order to efficiently increase our advertising spend more than 30%, which drove up quote volumes, while our more competitive product offering and process investments to improve our mobile device quote experience drove up quote conversion. Similar to our Agency business, in Direct auto we grew new applications double digits across all consumer segments and marketing investments that targeted auto/home bundlers helped us grow Direct auto new Robinsons applications more than three times as fast as our other segments. During the year, we launched our HomeQuote Explorer® (HQQ) application, bringing a multi-carrier direct-to-consumer online property offering to market and expanded the offering countrywide. HQX enables consumers to quickly and easily quote and compare homeowners insurance online from Progressive Home (ASI) and other carriers. As we increase our penetration of the more complex, multi-product customers that fuel our Destination Era success, it's essential to continue to expand our portfolio of additional protection products and, in 2017, we added mobile phone, portable electronics, and home-sharing coverages to our Progressive Advantage portfolio.

> Our special lines products (e.g., motorcycle, boat, recreational vehicle) underperformed slightly from a profit perspective during the year due to significantly higher weather-related losses and expense ratio increases resulting from increases in advertising and IT costs for the replacement of our policy issuance and maintenance system. Loss ratios were elevated due primarily to more than \$100 million in catastrophe losses, including those from hurricanes Harvey and Irma as they hit our largest and second largest special lines states. Our focus on building specialized products to meet the needs of special lines enthusiasts affords us strong market share across these products and, during 2017, we grew policies in force by 2% driven by single digit new application growth and slight increases in policy life expectancy. Special lines continues to provide a strategic advantage for Progressive as it delivers a substantial portion of Personal Lines annual underwriting profit while also attracting and retaining a large book of preferred customers to whom we can cross-market our auto and expanding property offerings.

Through the lens of maximizing growth at or below our 96 combined ratio, 2017 was an excellent year for Personal Lines as we delivered strong double-digit premium growth, adding more than \$3 billion incremental premiums written at profit margins better than our targets. Beyond current calendar-year performance, we continue to invest to ensure we can achieve our vision of becoming consumers' #1 choice and destination for auto and other insurance through enhancing our strong brand, building and rapidly deploying highly competitive products, and expanding the breadth and depth of our products and services to ensure we can meet consumers' needs throughout their lifetime.



## OPERATING RESULTS

### PERSONAL LINES

|  | 2017     | 2016     | Change     |
|--|----------|----------|------------|
| Net premiums written (in billions)     | \$ 22.9  | \$ 19.8  | 16%        |
| Net premiums earned (in billions)      | \$ 21.9  | \$ 19.2  | 14%        |
| Loss and loss adjustment expense ratio | 73.6     | 76.1     | (2.5) pts. |
| Underwriting expense ratio             | 19.5     | 19.2     | 0.3 pts.   |
| Combined ratio                         | 93.1     | 95.3     | (2.2) pts. |
| Policies in force (in thousands)       | 16,075.5 | 14,656.8 | 10%        |

### COMMERCIAL LINES

|  |        |        |            |
|--|--------|--------|------------|
| Net premiums written (in billions)     | \$ 3.1 | \$ 2.6 | 20%        |
| Net premiums earned (in billions)      | \$ 2.8 | \$ 2.4 | 15%        |
| Loss and loss adjustment expense ratio | 70.3   | 71.9   | (1.6) pts. |
| Underwriting expense ratio             | 22.0   | 21.7   | 0.3 pts.   |
| Combined ratio                         | 92.3   | 93.6   | (1.3) pts. |
| Policies in force (in thousands)       | 646.8  | 607.9  | 6%         |

### PROPERTY

|   |         |         |          |
|---|---------|---------|----------|
| Net premiums written (in billions)      | \$ 1.1  | \$ 0.9  | 17%      |
| Net premiums earned (in billions)       | \$ 1.0  | \$ 0.9  | 14%      |
| Loss and loss adjustment expense ratio  | 70.8    | 63.2    | 7.6 pts. |
| Underwriting expense ratio <sup>1</sup> | 34.3    | 33.0    | 1.3 pts. |
| Combined ratio <sup>1</sup>             | 105.1   | 96.2    | 8.9 pts. |
| Policies in force (in thousands)        | 1,461.7 | 1,201.9 | 22%      |

<sup>1</sup> Underwriting expense and combined ratios for 2017 and 2016, include 6.7 points and 7.2 points, respectively, of amortization expenses predominately associated with the acquisition of a controlling interest in ARX.

### COMMERCIAL LINES

The past was prologue for Commercial Lines in 2017, once again delivering strong top-line growth and achieving our underwriting profit target while confronting a distressed, and generally unprofitable, commercial auto market. Our ongoing commitment to broad, multi-channel distribution and maintaining a wide aperture on underwriting can leave us exposed to very high new business submission rates when parts of the market become destabilized. That was certainly the case for much of 2017 in the transportation, specialty trucking and towing market tiers of commercial auto. If not properly managed, high rates of new business growth can pressure margins, challenge our capacity to serve policyholders and agents, and leave our pricing exposed to large shifts in portfolio composition. Successfully navigating this environment through proactive rate

management, targeted underwriting actions, and new business restrictions, as well as an intensified focus on our large loss claims process, led to a remarkable year of growth and profit.

For the second consecutive year, net premiums written increased 20% on a year-over-year basis, finishing at a market leading \$3.1 billion, an incremental gain of just over half a billion dollars. Top-line growth was achieved through a combination of policy growth and gains in average written premium per policy.

We entered 2017 with new business restrictions in place for a number of trucking and towing risk profiles. This served to slow new business production in high growth areas, while allowing us to implement rate and underwriting adjustments, build staff, and improve process in customer care and claims. Once comfortable with the adjusted rates and our assessment of future trend in an economy gaining steam, we removed the majority of restrictions by the second quarter. Growth in policies in force built from that point forward finishing at +6% for the year. Average written premium per policy increased 12%, primarily the result of an aggressive revision schedule during the fourth quarter of 2016, with a resumption of truck growth and a modest gain in vehicles per policy also contributing.

> The Commercial Lines combined ratio for the year was 92.3, an outstanding result for a line of business in which the industry will once again produce a substantial underwriting loss. We are unwavering in our commitment to manage our Commercial Lines business to an annual underwriting profit consistent with our long-standing target and will continue to forgo additional growth opportunities when we believe that target cannot be met. Being consistently profitable from year-to-year enables us to invest in new businesses and systems, while providing a reliable market to our agents and policyholders.

Going back-to-back with two years of exceptional growth and profitability does not leave us complacent in the present or fully satisfied with our prospects going forward. In fact, it has quite the opposite effect. We are mindful of the volatility inherent in Commercial Lines, particularly as our policy limits profile has shifted upward over the last half decade. We continue to invest in and grow our commercial casualty and large loss specialty claims units and employ a limited use of excess of loss reinsurance to manage this volatility to our competitive advantage. We are sensitive to changes in the economy, which continues

to experience a period of expansion, and the corresponding implications for commercial miles driven and accident frequency. We are carefully monitoring the impact tax reform may have on competitive pricing, especially from those competitors that appear to be most driven by return on equity. As in years past, we will be proactive in responding to changes in the environment and measured in our approach to expanding our auto business or introducing product changes.

Looking forward, the success, size, and scale of our Commercial Lines business helps fund important investments in the future. We were pleased to launch an important new initiative for Commercial Lines in 2017. Our SmartHaul usage-based insurance program for Motor Carriers went live in 41 states just as the Federal mandate for electronic logging devices (ELDs) went into effect in December. SmartHaul allows owner operators to earn discounts up to 18% for agreeing to share their ELD-generated driving data with us. Having captured and modeled motor carrier driving data for several years, we anticipate this being our most significant advancement in rate segmentation for this important business segment. Early market response has been quite encouraging and market demand is expected to grow throughout 2018 as stricter enforcement of the ELD law motivates device installation and more operators develop verifiable telematics driving histories that qualify them for larger discounts.

Our involvement in, and understanding of, the transportation networking company (TNC) space continues to grow. Our insurance relationship with Uber Technologies moved beyond the pilot stage in 2017, and we will be expanding with them to additional markets in 2018. We expect TNCs to have even greater influence on how people choose to get around in the years ahead and we are committed to becoming a preferred supplier to this industry.

Finally, we ramped up our investment in non-auto small business insurance during the year, focusing on product and system development and building new digital distribution capability. This effort enjoys broad enterprisewide support, including more than 100 individuals dedicated on a full-time basis. We already enjoy the trust of more than half a million small business customers, have a widely recognized brand, and strong small business owner demand in our agent and direct channels. We greatly anticipate bringing more small business insurance products to market for these customers.

We are excited about all that we have on the horizon in Commercial Lines and feel that we are well positioned to capitalize on these initiatives while continuing to grow our core business.



## PROPERTY

Our Property strategy is meant to complement our multi-channel auto offerings with leading property products in order to increase our share of the bundled home and auto market. In the agency channel, we offer residential property insurance for homeowners, other property owners, and renters through our majority-owned insurance company, American Strategic Insurance and subsidiaries (ASI). In the direct channel, we distribute residential property insurance policies written by ASI and other non-affiliated carriers directly to consumers both online and over the phone.

During 2017, our Property business, which includes ASI property insurance and both Progressive's and ASI's renters insurance, had net premiums written of \$1.1 billion at a 105.1 combined ratio, which includes 6.7 points of amortization expense on intangible assets. New property applications increased 48%,

with policies in force ending the year at 1.5 million. The combination of ASI property and Progressive auto insurance in states beyond ASI's original coastal states is producing a continued shift in the state mix of our Property business. For 2017, Florida accounted for 14% of new homeowners policies and Texas accounted for 16%, with the remaining states accounting for the balance. As of year-end 2017, the mix of homeowners policies in force is 29% in Florida, 18% in Texas, and 53% in other states.

The four key priorities for our Property strategy remain the same as reported last year: 1) expanding ASI's product availability and agent distribution in new and recently entered states; 2) increasing the competitiveness of Progressive auto and ASI home bundles; 3) improving agent ease of use for quoting and selling ASI/Progressive policies; and 4) expanding our direct property offering through investing resources to increase consumer awareness and maximize sales yield. We made significant progress against these goals during 2017.

ASI entered three new states in 2017, bringing our total to 41 active states and the District of Columbia, representing 96% of the homeowner's insurance market. We added the Progressive renters product to seven new states plus D.C. in 2017, bringing the total to 42 jurisdictions that comprise 91% of Progressive's auto insurance customers. The renters product helps us attract and retain future home and auto bundle customers.

Momentum is building in the Platinum agent program. New Property homeowners applications from Platinum agents were up about 50% in 2017, with auto and home bundles from Platinum agents up just over 100%, albeit from a smaller base.

In August 2017, we announced to our agents that we'll transition ASI's homeowners insurance product brand to Progressive Home. Feedback from agents was positive, indicating that many are already telling their customers that ASI is Progressive's homeowners insurance product. We expect that this branding change will make it easier for agents to sell the Progressive auto and home bundle. We have already made this branding change in our direct quoting applications. We will begin implementing the change for our policy management system, policy documents, and customer communications during 2018 and 2019.



In the direct channel, we announced a new online quoting platform called HomeQuote Explorer<sup>®</sup> (HQX) in July. Prior to the launch of HQX, ASI quotes were available only to direct consumers who quoted over the phone. This new quoting platform allowed us to present ASI quotes, alongside quotes from other non-affiliated property carriers, for online shoppers. The addition of internet shoppers resulted in significant growth in new ASI direct homeowner sales. We also launched ASI's direct-to-consumer renters quoting and sales application in October 2017. Direct homeowners and renters policies accounted for just over 8% of ASI's new homeowner and renters policy sales in the first quarter of 2017, growing to 25% of new sales in the fourth quarter.

We feel good about our progress in 2017 in expanding the capacity and competitiveness of our Property offerings in both the agency and direct channels. We enter 2018 with strong momentum and optimism about our ability to attract bundled auto and home customers.



**FINANCIAL**

# REVIEW

**BASIS OF PRESENTATION** *The accompanying consolidated financial statements include the accounts of The Progressive Corporation, its subsidiaries, and affiliates. These financial statements should be read in conjunction with the complete Consolidated Financial Statements, including the complete Notes to the Consolidated Financial Statements, as well as Management’s Discussion and Analysis of Financial Condition and Results of Operations and Supplemental Information, which are included in Progressive’s 2017 Annual Report to Shareholders, which is attached as an Appendix to Progressive’s 2018 Proxy Statement.*

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

Progressive’s management is responsible for establishing and maintaining adequate internal control over financial reporting. Based on Progressive’s evaluation under the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), management concluded that Progressive’s internal control over financial reporting was effective as of December 31, 2017. The complete “Management’s Report on Internal Control over Financial Reporting,” as required by Section 404 of The Sarbanes-Oxley Act of 2002 and applicable SEC regulations, along with the related report of PricewaterhouseCoopers LLP, is presented in the 2017 Annual Report to Shareholders, which is attached as an Appendix to Progressive’s 2018 Proxy Statement.

## **CEO AND CFO CERTIFICATIONS**

Susan Patricia Griffith, President and Chief Executive Officer of The Progressive Corporation, and John P. Sauerland, Vice President and Chief Financial Officer of The Progressive Corporation, have issued the certifications required by Sections 302 and 906 of The Sarbanes-Oxley Act of 2002 and applicable SEC regulations with respect to Progressive’s 2017 Annual Report on Form 10-K, including the financial statements provided in this Report and in the 2017 Annual Report to Shareholders, which is attached as an Appendix to Progressive’s 2018 Proxy Statement. Among other matters required to be included in those certifications, Mrs. Griffith and Mr. Sauerland have each certified that, to the best of their knowledge, the financial statements, and other financial information included in the Annual Report on Form 10-K, fairly present in all material respects the financial condition, results of operations, and cash flows of Progressive as of, and for, the periods presented. See Exhibits 31 and 32 to Progressive’s Annual Report on Form 10-K for the complete Section 302 and 906 Certifications, respectively.

***To the Board of Directors and Shareholders of The Progressive Corporation:***

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Progressive Corporation and its subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017 (not presented herein) appearing in the 2017 Annual Report to Shareholders of The Progressive Corporation, which is attached as an Appendix to The Progressive Corporation's 2018 Proxy Statement; and have issued our report thereon dated February 27, 2018, which included an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated financial statements is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

Cleveland, Ohio  
February 27, 2018

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(millions—except per share amounts)

| For the years ended December 31,                                | 2017        | 2016        | 2015        |
|---|-------------|-------------|-------------|
| <b>REVENUES</b>   |             |             |             |
| Net premiums earned   | \$ 25,729.9 | \$ 22,474.0 | \$ 19,899.1 |
| Investment income   | 563.1       | 478.9       | 454.6       |
| Net realized gains (losses) on securities:                      |             |             |             |
| Net impairment losses recognized in earnings                    | (64.5)      | (86.8)      | (23.8)      |
| Net realized gains (losses) on securities                       | 114.1       | 137.9       | 136.5       |
| Total net realized gains (losses) on securities                 | 49.6        | 51.1        | 112.7       |
| Fees and other revenues   | 370.6       | 332.5       | 302.0       |
| Service revenues  | 126.8       | 103.3       | 86.3        |
| Other gains (losses)  | (1.0)       | 1.6         | (0.9)       |
| Total revenues  | 26,839.0    | 23,441.4    | 20,853.8    |
| <b>EXPENSES</b>   |             |             |             |
| Losses and loss adjustment expenses                             | 18,808.0    | 16,879.6    | 14,342.0    |
| Policy acquisition costs  | 2,124.9     | 1,863.8     | 1,651.8     |
| Other underwriting expenses                                     | 3,480.7     | 2,972.0     | 2,712.1     |
| Investment expenses   | 23.9        | 22.4        | 22.8        |
| Service expenses  | 109.5       | 92.0        | 77.5        |
| Interest expense  | 153.1       | 140.9       | 136.0       |
| Total expenses  | 24,700.1    | 21,970.7    | 18,942.2    |
| <b>NET INCOME</b>   |             |             |             |
| Income before income taxes                                      | 2,138.9     | 1,470.7     | 1,911.6     |
| Provision for income taxes                                      | 540.8       | 413.5       | 611.1       |
| Net income  | 1,598.1     | 1,057.2     | 1,300.5     |
| Net (income) loss attributable to noncontrolling interest (NCI) | (5.9)       | (26.2)      | (32.9)      |
| Net income attributable to Progressive                          | \$ 1,592.2  | \$ 1,031.0  | \$ 1,267.6  |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>                        |             |             |             |
| Changes in:   |             |             |             |
| Total net unrealized gains on securities                        | \$ 355.4    | \$ 130.6    | \$ (212.9)  |
| Net unrealized losses on forecasted transactions                | (5.4)       | (1.2)       | (9.7)       |
| Foreign currency translation adjustment                         | 1.1         | 0.4         | (1.2)       |
| Other comprehensive income (loss)                               | 351.1       | 129.8       | (223.8)     |
| Other comprehensive (income) loss attributable to NCI           | (2.3)       | 3.2         | 1.1         |
| Comprehensive income attributable to Progressive                | \$ 1,941.0  | \$ 1,164.0  | \$ 1,044.9  |
| <b>COMPUTATION OF PER SHARE EARNINGS</b>                        |             |             |             |
| <b>ATTRIBUTABLE TO PROGRESSIVE</b>                              |             |             |             |
| Average shares outstanding — Basic                              | 580.8       | 581.7       | 585.5       |
| Net effect of dilutive stock-based compensation                 | 4.9         | 3.3         | 3.7         |
| Total average equivalent shares — Diluted                       | 585.7       | 585.0       | 589.2       |
| Basic: Earnings per share                                       | \$ 2.74     | \$ 1.77     | \$ 2.16     |
| Diluted: Earnings per share                                     | \$ 2.72     | \$ 1.76     | \$ 2.15     |

Notes to the Consolidated Financial Statements are included in Progressive's 2017 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2018 Proxy Statement.

CONSOLIDATED BALANCE SHEETS

(millions)

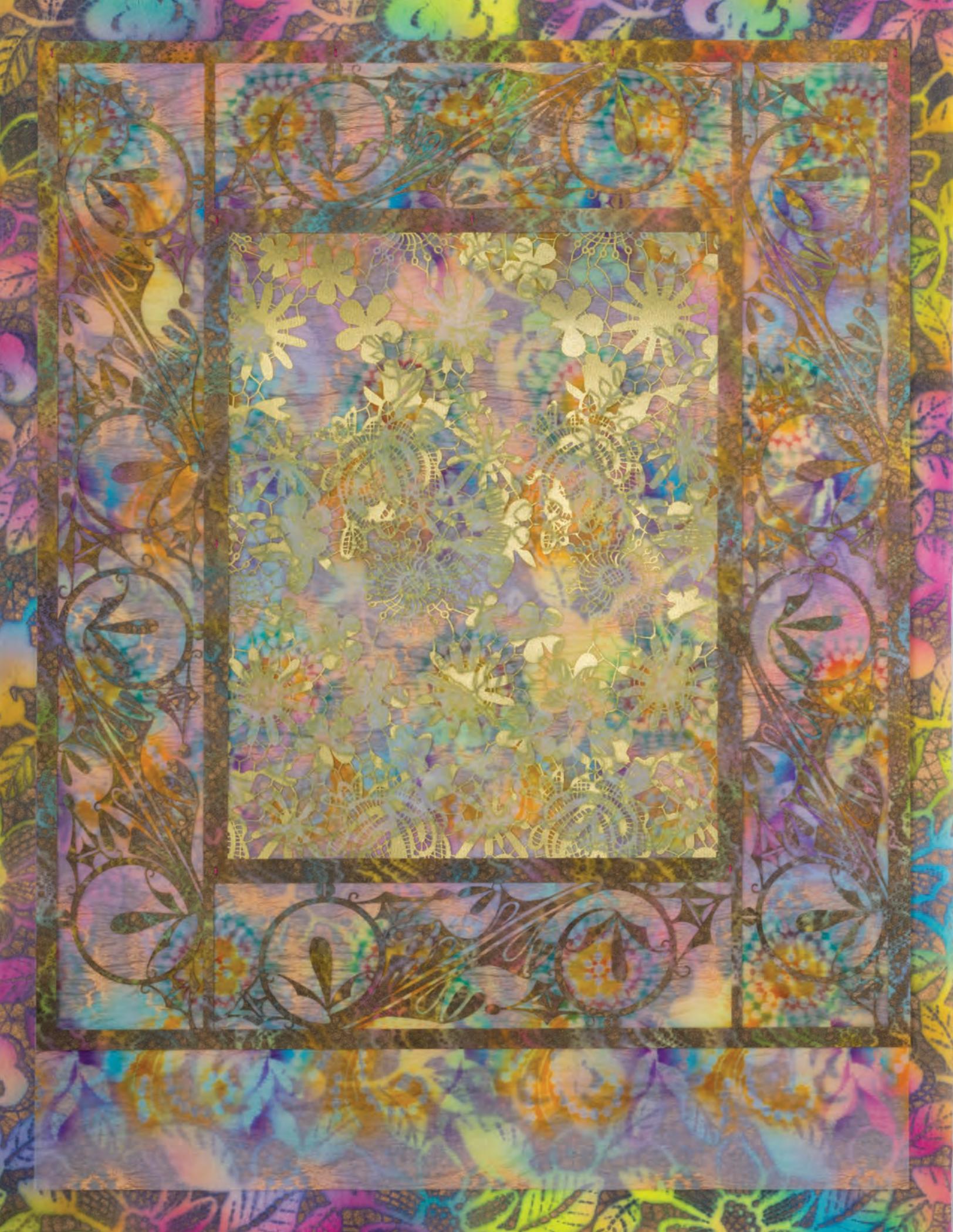
| For the years ended December 31,  | 2017         | 2016         |
|---|--------------|--------------|
| <b>ASSETS</b>   |              |              |
| Investments — Available-for-sale, at fair value:  |              |              |
| Fixed maturities (amortized cost: \$20,209.9 and \$16,287.1)  | \$ 20,201.7  | \$ 16,243.8  |
| Equity securities:  |              |              |
| Nonredeemable preferred stocks (cost: \$698.6 and \$734.2)  | 803.8        | 853.5        |
| Common equities (cost: \$1,499.0 and \$1,437.5)   | 3,399.8      | 2,812.4      |
| Short-term investments (amortized cost: \$2,869.4 and \$3,572.9)  | 2,869.4      | 3,572.9      |
| Total investments   | 27,274.7     | 23,482.6     |
| Cash and cash equivalents   | 265.0        | 211.5        |
| Restricted cash   | 10.3         | 14.9         |
| Total cash, cash equivalents, and restricted cash   | 275.3        | 226.4        |
| Accrued investment income   | 119.7        | 103.9        |
| Premiums receivable, net of allowance for doubtful accounts of \$210.9 and \$186.8                            | 5,422.5      | 4,509.2      |
| Reinsurance recoverables, including \$103.3 and \$83.8 on paid losses and loss adjustment expenses            | 2,273.4      | 1,884.8      |
| Prepaid reinsurance premiums  | 203.3        | 170.5        |
| Deferred acquisition costs  | 780.5        | 651.2        |
| Property and equipment, net of accumulated depreciation of \$940.6 and \$845.8                                | 1,119.6      | 1,177.1      |
| Goodwill  | 452.7        | 449.4        |
| Intangible assets, net of accumulated amortization of \$175.7 and \$109.5                                     | 366.6        | 432.8        |
| Other assets  | 412.9        | 339.6        |
| Total assets  | \$ 38,701.2  | \$ 33,427.5  |
| <b>LIABILITIES</b>  |              |              |
| Unearned premiums   | \$ 8,903.5   | \$ 7,468.3   |
| Loss and loss adjustment expense reserves   | 13,086.9     | 11,368.0     |
| Net deferred income taxes   | 135.0        | 111.3        |
| Dividends payable   | 655.1        | 395.4        |
| Accounts payable, accrued expenses, and other liabilities <sup>1</sup>  | 2,825.9      | 2,495.5      |
| Debt <sup>2</sup>   | 3,306.3      | 3,148.2      |
| Total liabilities   | 28,912.7     | 24,986.7     |
| <b>REDEEMABLE NONCONTROLLING INTEREST (NCI)<sup>3</sup></b>   | <b>503.7</b> | <b>483.7</b> |
| <b>SHAREHOLDERS' EQUITY</b>   |              |              |
| Common shares, \$1.00 par value (authorized 900.0; issued 797.5 including treasury shares of 215.8 and 217.6) | 581.7        | 579.9        |
| Paid-in capital   | 1,389.2      | 1,303.4      |
| Retained earnings   | 6,031.7      | 5,140.4      |
| Accumulated other comprehensive income:   |              |              |
| Net unrealized gains (losses) on securities   | 1,295.0      | 939.6        |
| Net unrealized losses on forecasted transactions  | (14.8)       | (9.4)        |
| Foreign currency translation adjustment   | 0            | (1.1)        |
| Accumulated other comprehensive (income) loss attributable to NCI   | 2.0          | 4.3          |
| Total accumulated other comprehensive income attributable to Progressive                                      | 1,282.2      | 933.4        |
| Total shareholders' equity  | 9,284.8      | 7,957.1      |
| Total liabilities, redeemable NCI, and shareholders' equity   | \$ 38,701.2  | \$ 33,427.5  |

<sup>1</sup>See Note 12—Litigation and Note 13—Commitments and Contingencies for further discussion.

<sup>2</sup>Consists of both short-term and long-term debt. See Note 4—Debt for further discussion.

<sup>3</sup>See Note 15—Redeemable Noncontrolling Interest for further discussion.

Notes to the Consolidated Financial Statements are included in Progressive's 2017 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2018 Proxy Statement.





CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(millions—except per share amounts)

| For the years ended December 31,  | 2017              | 2016              | 2015              |
|---|-------------------|-------------------|-------------------|
| <b>COMMON SHARES, \$1.00 PAR VALUE</b>  |                   |                   |                   |
| Balance, Beginning of year  | \$ 579.9          | \$ 583.6          | \$ 587.8          |
| Treasury shares purchased   | (1.5)             | (6.1)             | (7.3)             |
| Net restricted equity awards issued/vested  | 3.3               | 2.4               | 3.1               |
| <b>Balance, End of year</b>   | <b>\$ 581.7</b>   | <b>\$ 579.9</b>   | <b>\$ 583.6</b>   |
| <b>PAID-IN CAPITAL</b>  |                   |                   |                   |
| Balance, Beginning of year  | \$ 1,303.4        | \$ 1,218.8        | \$ 1,184.3        |
| Tax benefit from vesting of equity-based compensation                                 | 0                 | 9.2               | 16.8              |
| Treasury shares purchased   | (3.4)             | (13.4)            | (15.2)            |
| Net restricted equity awards issued/vested  | (3.3)             | (2.4)             | (3.1)             |
| Amortization of equity-based compensation   | 92.9              | 80.9              | 64.5              |
| Reinvested dividends on restricted stock units  | 8.0               | 6.1               | 5.7               |
| Adjustment to carrying amount of redeemable noncontrolling interest                   | (8.4)             | 4.2               | (34.2)            |
| <b>Balance, End of year</b>   | <b>\$ 1,389.2</b> | <b>\$ 1,303.4</b> | <b>\$ 1,218.8</b> |
| <b>RETAINED EARNINGS</b>  |                   |                   |                   |
| Balance, Beginning of year  | \$ 5,140.4        | \$ 4,686.6        | \$ 4,133.4        |
| Net income attributable to Progressive  | 1,592.2           | 1,031.0           | 1,267.6           |
| Treasury shares purchased   | (57.6)            | (173.0)           | (186.0)           |
| Cash dividends declared on common shares (\$1.1247, \$0.6808, and \$0.8882 per share) | (654.2)           | (394.7)           | (520.5)           |
| Reinvested dividends on restricted stock units  | (8.0)             | (6.1)             | (5.7)             |
| Other, net  | 18.9              | (3.4)             | (2.2)             |
| <b>Balance, End of year</b>   | <b>\$ 6,031.7</b> | <b>\$ 5,140.4</b> | <b>\$ 4,686.6</b> |
| <b>ACCUMULATED OTHER COMPREHENSIVE INCOME ATTRIBUTABLE TO PROGRESSIVE</b>             |                   |                   |                   |
| Balance, Beginning of year  | \$ 933.4          | \$ 800.4          | \$ 1,023.1        |
| Attributable to noncontrolling interest   | (2.3)             | 3.2               | 1.1               |
| Other comprehensive income (loss)   | 351.1             | 129.8             | (223.8)           |
| <b>Balance, End of year</b>   | <b>\$ 1,282.2</b> | <b>\$ 933.4</b>   | <b>\$ 800.4</b>   |
| <b>Total Shareholders' Equity</b>   | <b>\$ 9,284.8</b> | <b>\$ 7,957.1</b> | <b>\$ 7,289.4</b> |

There are 20.0 million Serial Preferred Shares authorized; no such shares are issued or outstanding.

There are 5.0 million Voting Preference Shares authorized; no such shares have been issued.

Notes to the Consolidated Financial Statements are included in Progressive's 2017 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2018 Proxy Statement.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions)

| For the years ended December 31,  | 2017       | 2016       | 2015       |
|---|------------|------------|------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |            |            |            |
| Net income  | \$ 1,598.1 | \$ 1,057.2 | \$ 1,300.5 |
| Adjustments to reconcile net income to net cash provided by operating activities: |            |            |            |
| Depreciation  | 169.9      | 137.4      | 103.7      |
| Amortization of intangible assets   | 66.2       | 62.1       | 46.8       |
| Net amortization of fixed-income securities                                       | 86.2       | 77.2       | 98.4       |
| Amortization of equity-based compensation   | 95.4       | 85.2       | 66.2       |
| Net realized (gains) losses on securities   | (49.6)     | (51.1)     | (112.7)    |
| Net (gains) losses on disposition of property and equipment                       | 7.2        | 6.6        | 2.0        |
| Other (gains) losses  | 1.0        | (1.6)      | 0.9        |
| Net loss on exchange transaction  | 0          | 4.5        | 0          |
| Changes in:   |            |            |            |
| Premiums receivable   | (913.2)    | (518.5)    | (421.1)    |
| Reinsurance recoverables  | (388.6)    | (388.2)    | (202.6)    |
| Prepaid reinsurance premiums  | (32.8)     | 48.8       | 32.5       |
| Deferred acquisition costs  | (129.3)    | (103.8)    | (42.3)     |
| Income taxes  | (172.6)    | (55.7)     | (107.2)    |
| Unearned premiums   | 1,434.9    | 830.7      | 632.4      |
| Loss and loss adjustment expense reserves   | 1,718.8    | 1,323.2    | 917.7      |
| Accounts payable, accrued expenses, and other liabilities                         | 400.0      | 308.9      | 37.9       |
| Other, net  | (134.8)    | (90.2)     | (60.2)     |
| Net cash provided by operating activities   | 3,756.8    | 2,732.7    | 2,292.9    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |            |            |            |
| Purchases:  |            |            |            |
| Fixed maturities  | (14,587.8) | (11,610.6) | (9,311.1)  |
| Equity securities   | (255.6)    | (434.2)    | (647.1)    |
| Sales:  |            |            |            |
| Fixed maturities  | 5,382.5    | 5,694.9    | 4,913.5    |
| Equity securities   | 252.9      | 484.6      | 402.4      |
| Maturities, paydowns, calls, and other:   |            |            |            |
| Fixed maturities  | 5,215.8    | 4,907.4    | 3,579.5    |
| Equity securities   | 50.0       | 0          | 12.0       |
| Net sales (purchases) of short-term investments                                   | 727.6      | (1,357.2)  | 20.5       |
| Net unsettled security transactions   | (33.6)     | 50.9       | (8.2)      |
| Purchases of property and equipment   | (155.7)    | (215.0)    | (130.7)    |
| Sales of property and equipment   | 15.3       | 6.2        | 10.6       |
| Acquisition of an insurance company, net of cash acquired                         | (18.1)     | 0          | 0          |
| Net cash disposed in exchange transaction <sup>1</sup>                            | 0          | (7.7)      | 0          |
| Acquisition of ARX Holding Corp., net of cash acquired                            | 0          | 0          | (752.7)    |
| Acquisition of additional shares of ARX Holding Corp.                             | 0          | 0          | (12.6)     |
| Net cash used in investing activities   | (3,406.7)  | (2,480.7)  | (1,923.9)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |            |            |            |
| Proceeds from exercise of equity options  | 0.5        | 0          | 0.2        |
| Net proceeds from debt issuance   | 841.1      | 495.6      | 382.0      |
| Payment of debt   | (49.0)     | (25.5)     | (20.4)     |
| Redemption/reacquisition of subordinated debt                                     | (635.6)    | (18.2)     | (19.3)     |
| Dividends paid to shareholders  | (395.4)    | (519.0)    | (403.6)    |
| Acquisition of treasury shares for restricted stock tax liabilities               | (57.6)     | (25.1)     | (30.6)     |
| Acquisition of treasury shares acquired in open market                            | (4.9)      | (167.4)    | (177.9)    |
| Tax benefit from vesting of equity-based compensation                             | 0          | 9.2        | 16.8       |
| Net cash used in financing activities   | (300.9)    | (250.4)    | (252.8)    |
| Effect of exchange rate changes on cash   | (0.3)      | 0.4        | (0.2)      |
| Increase in cash, cash equivalents, and restricted cash                           | 48.9       | 2.0        | 116.0      |
| Cash, cash equivalents, and restricted cash — Beginning of year                   | 226.4      | 224.4      | 108.4      |
| Cash, cash equivalents, and restricted cash — End of year                         | \$ 275.3   | \$ 226.4   | \$ 224.4   |

<sup>1</sup> See Note 1—Reporting and Accounting Policies for further information.

Notes to the Consolidated Financial Statements are included in Progressive's 2017 Annual Report to Shareholders, which is attached as an Appendix to Progressive's 2018 Proxy Statement.

**SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995:**

> Investors are cautioned that certain statements in this report not based upon historical fact are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These statements often use words such as “estimate,” “expect,” “intend,” “plan,” “believe,” and other words and terms of similar meaning, or are tied to future periods, in connection with a discussion of future operating or financial performance. Forward-looking statements are based on current expectations and projections about future events, and are subject to certain risks, assumptions and uncertainties that could cause actual events and results to differ materially from those discussed herein. These risks and uncertainties include, without limitation, uncertainties related to estimates, assumptions, and projections generally; inflation and changes in general economic conditions (including changes in interest rates and financial markets); the possible failure of one or more governmental, corporate, or other entities to make scheduled debt payments or satisfy other obligations; our ability to access capital markets and financing arrangements when needed to support growth or other capital needs, and the favorable evaluations by credit and other rating agencies on which this access depends; the potential or actual downgrading by one or more rating agencies of our securities or governmental, corporate, or other securities we hold; the financial condition of, and other issues relating to the strength of and liquidity available to, issuers of securities held in our investment portfolios and other companies with which we have ongoing business relationships, including reinsurers and other counterparties to certain financial transactions or under certain government programs; the accuracy and adequacy of our pricing, loss reserving, and claims methodologies; the competitiveness of our pricing and the effectiveness of our initiatives to attract and retain more customers; initiatives by competitors and the effectiveness of our response; our ability to obtain regulatory approval for the introduction of products to new jurisdictions, for requested rate changes and the timing thereof and for any proposed acquisitions;

the effectiveness of our brand strategy and advertising campaigns relative to those of competitors; legislative and regulatory developments at the state and federal levels, including, but not limited to, matters relating to vehicle and homeowners insurance, health care reform and tax law changes; the outcome of disputes relating to intellectual property rights; the outcome of litigation or governmental investigations that may be pending or filed against us; severe weather conditions and other catastrophe events; the effectiveness of our reinsurance programs; changes in vehicle usage and driving patterns, which may be influenced by oil and gas prices; changes in residential occupancy patterns and the effects of the emerging “sharing economy”; advancements in vehicle or home technology or safety features, such as accident and loss prevention technologies or the development of autonomous or partially autonomous vehicles; our ability to accurately recognize and appropriately respond in a timely manner to changes in loss frequency and severity trends; technological advances; acts of war and terrorist activities; our ability to maintain the uninterrupted operation of our facilities, systems (including information technology systems), and business functions, and safeguard personal and sensitive information in our possession, whether from cyber-attacks, other technology events or other means; our continued access to and functionality of third-party systems that are critical to our business; our continued ability to access cash accounts and/or convert securities into cash on favorable terms when we desire to do so; restrictions on our subsidiaries’ ability to pay dividends to The Progressive Corporation; possible impairment of our goodwill or intangible assets if future results do not adequately support either, or both, of these items; court decisions, new theories of insurer liability or interpretations of insurance policy provisions and other trends in litigation; changes in health care and auto and property repair costs; and other matters described from time to time in our releases and publications, and in our periodic reports and other documents filed with the United States Securities and Exchange Commission. In addition, investors should be aware that generally accepted accounting principles prescribe when a company may reserve for particular risks, including litigation exposures. Accordingly, results for a given reporting period could be significantly affected if and when a reserve is established for one or more contingencies. Also, our regular reserve reviews may result in adjustments of varying magnitude as additional information regarding claims activity becomes known. Reported results, therefore, may be volatile in certain accounting periods.

## DIRECTORS AND OFFICERS

### Directors

#### **Philip Bleser**<sup>3,6</sup>

Retired Chairman of Global Corporate Banking, J.P. Morgan Chase & Co. (financial services)

#### **Stuart B. Burgdoerfer**<sup>1,6</sup>

Executive Vice President and Chief Financial Officer, L Brands, Inc. (retailing)

#### **Charles A. Davis**<sup>4,5,6</sup>

Chief Executive Officer, Stone Point Capital LLC (private equity investing)

#### **Roger N. Farah**<sup>3,5,6</sup>

Former Executive Director, Tory Burch LLC (retailing)

#### **Lawton W. Fitt**<sup>2,4,5,6</sup>

Lead Independent Director, Retired Partner, Goldman Sachs Group (financial services)

#### **Susan Patricia Griffith**<sup>2</sup>

President and Chief Executive Officer, The Progressive Corporation

#### **Jeffrey D. Kelly**<sup>1,6</sup>

Retired Chief Operating Officer and Chief Financial Officer, RenaissanceRe Holdings Ltd. (reinsurance services)

#### **Patrick H. Nettles, Ph.D.**<sup>1,6</sup>

Executive Chairman, Ciena Corporation (telecommunications)

#### **\*Glenn M. Renwick**<sup>2,4</sup>

Chairman of the Board, The Progressive Corporation

#### **\*Bradley T. Sheares, Ph.D.**<sup>3,6</sup>

Former Chief Executive Officer, Reliant Pharmaceuticals, Inc. (pharmaceuticals)

#### **Barbara R. Snyder**<sup>1,6</sup>

President, Case Western Reserve University (higher education)

<sup>1</sup> Audit Committee Member

<sup>2</sup> Executive Committee Member

<sup>3</sup> Compensation Committee Member

<sup>4</sup> Investment and Capital Committee Member

<sup>5</sup> Nominating and Governance Committee Member

<sup>6</sup> Independent Director

### Corporate Officers

#### **Susan Patricia Griffith**

President and Chief Executive Officer

#### **John P. Sauerland**

Vice President and Chief Financial Officer

#### **Daniel P. Mascaro**

Vice President, Secretary, and Chief Legal Officer

#### **Jeffrey W. Basch**

Vice President and Chief Accounting Officer

#### **Patrick S. Brennan**

Treasurer

#### **Mariann Wojtkun Marshall**

Assistant Secretary

#### **Glenn M. Renwick**

Chairman of the Board (non-executive)

\* In May 2018, Glenn M. Renwick and Bradley T. Sheares will retire from the Board. Mr. Renwick has served on the Board for over 18 years and has been Chairman since November 2013. Dr. Sheares has been a member of the Board for 14 years. Progressive would like to thank both Mr. Renwick and Dr. Sheares for their dedicated service and the many contributions they made during their tenure on the Board. It is expected that a new Chairman will be appointed at that time.

## 24-HOUR INSURANCE QUOTES, CLAIMS REPORTING, AND CUSTOMER SERVICE

|   | <i>Personal Autos, Motorcycles, and Recreational Vehicles</i>            | <i>Commercial Autos/Trucks</i>              |
|---|--|---|
| <b>To Receive a Quote</b>   | 1-800-PROGRESSIVE (1-800-776-4737)<br>progressive.com                    | 1-888-806-9598<br>progressivecommercial.com |
| <b>To Report a Claim</b>  | 1-800-PROGRESSIVE (1-800-776-4737)<br>progressive.com <sup>1</sup>       | 1-800-PROGRESSIVE<br>(1-800-776-4737)       |
| <b>For Customer Service</b><br>If you bought your policy through an independent agent or broker   | 1-800-925-2886<br>(1-800-300-3693 in California)<br>progressiveagent.com | 1-800-444-4487<br>progressivecommercial.com |
| If you bought your policy directly through Progressive online or by phone   | 1-800-PROGRESSIVE (1-800-776-4737)<br>progressive.com                    | 1-800-895-2886<br>progressivecommercial.com |
| <b>Homeowners</b><br>To receive a quote, report a claim, or speak to a customer service representative, please call 1-800-PROGRESSIVE or visit progressive.com and your inquiry will be routed to the appropriate contact center. |  |   |

In addition, iPhone® and Android® users can download the Progressive App to start a quote, report a claim, or service a policy.

<sup>1</sup> Claims reporting via the website is currently only available for personal auto policies.

## CORPORATE INFORMATION

### Principal Office

The Progressive Corporation  
6300 Wilson Mills Road  
Mayfield Village, Ohio 44143  
440-461-5000  
progressive.com

### Annual Meeting

The Annual Meeting of Shareholders will be held at the offices of The Progressive Corporation, Studio 96, 6671 Beta Drive, Mayfield Village, Ohio 44143 on May 11, 2018, at 10 a.m. eastern time. There were 2,082 shareholders of record on December 31, 2017.

### Shareholder/Investor Relations

Progressive does not maintain a mailing list for distribution of shareholders' reports. To view Progressive's publicly filed documents, shareholders can access our website: [progressive.com/sec](http://progressive.com/sec). To view our earnings and other releases, access: [progressive.com/investors](http://progressive.com/investors).

For financial-related information or to request copies of Progressive's publicly filed documents free of charge, write to: The Progressive Corporation, Investor Relations, 6300 Wilson Mills Road, Box W33, Mayfield Village, Ohio 44143, email: [investor\\_relations@progressive.com](mailto:investor_relations@progressive.com), or call: 440-395-2222.

For all other company information, call: 440-461-5000 or access our website at: [progressive.com/contactus](http://progressive.com/contactus).

### Transfer Agent and Registrar

**Registered Shareholders:** If you have questions or changes to your account and your Progressive shares are registered in your name, write to: American Stock Transfer & Trust Company, Attn: Operations Center, 6201 15th Avenue, Brooklyn, NY 11219; phone: 1-866-709-7695; email: [info@astfinancial.com](mailto:info@astfinancial.com); or visit their website at: [astfinancial.com](http://astfinancial.com).

**Beneficial Shareholders:** If your Progressive shares are held in a brokerage or other financial institution account, contact your broker or financial institution directly regarding questions or changes to your account.

### Online Annual Report and Proxy Statement

Our 2017 Annual Report to Shareholders can be found at: [progressive.com/annualreport](http://progressive.com/annualreport).

Our 2018 Proxy Statement and 2017 Annual Report to Shareholders, in a PDF format, can be found at: [progressiveproxy.com](http://progressiveproxy.com).

### Common Shares and Dividends

The Progressive Corporation's common shares are traded on the New York Stock Exchange (symbol PGR). Progressive currently has an annual variable dividend policy. We expect the Board to declare the next annual variable dividend, subject to policy limitations, in December 2018, with a record date in early 2019 and payment shortly thereafter. A complete description of our annual variable dividend policy can be found at: [progressive.com/dividend](http://progressive.com/dividend).

| QUARTER     | Stock Price |          |          | Rate of Return | Dividends Declared per Share |
|-------------|-------------|----------|----------|----------------|------------------------------|
|             | High        | Low      | Close    |                |                              |
| <b>2017</b> |             |          |          |                |                              |
| 1           | \$ 40.74    | \$ 35.23 | \$ 39.18 |                | \$ 0                         |
| 2           | 45.03       | 38.61    | 44.09    |                | 0                            |
| 3           | 49.01       | 43.59    | 48.42    |                | 0                            |
| 4           | 57.18       | 47.89    | 56.32    |                | 1.1247                       |
|             | \$ 57.18    | \$ 35.23 | \$ 56.32 | 61.6%          | \$ 1.1247                    |
| <b>2016</b> |             |          |          |                |                              |
| 1           | \$ 35.27    | \$ 29.32 | \$ 35.14 |                | \$ 0                         |
| 2           | 35.54       | 31.14    | 33.50    |                | 0                            |
| 3           | 34.29       | 30.54    | 31.50    |                | 0                            |
| 4           | 35.95       | 30.66    | 35.50    |                | 0.6808                       |
|             | \$ 35.95    | \$ 29.32 | \$ 35.50 | 14.7%          | \$ 0.6808                    |

## CORPORATE INFORMATION

### Contact Non-Management Directors

Interested parties have the ability to contact the non-management directors as a group by sending a written communication clearly addressed to the non-management directors to either of the following:

Lawton W. Fitt, Lead Independent Director, The Progressive Corporation, email: [lead\\_director@progressive.com](mailto:lead_director@progressive.com); or

Daniel P. Mascaro, Secretary, The Progressive Corporation, 6300 Wilson Mills Road, Mayfield Village, Ohio 44143 or email: [secretary@progressive.com](mailto:secretary@progressive.com).

The recipient will forward communications so received to the non-management directors.

### Corporate Governance

Progressive's Corporate Governance Guidelines and Board Committee Charters are available at: [progressive.com/governance](http://progressive.com/governance).

**Counsel** Baker & Hostetler LLP, Cleveland, Ohio

### Charitable Contributions

We contribute annually to: (i) The Insurance Institute for Highway Safety to further its work in reducing the human trauma and economic costs of auto accidents; and (ii) The Progressive Insurance Foundation, which provides matching funds to eligible 501(c)(3) charitable organizations to which Progressive employees contribute. Over the last five years, the matching funds provided to The Progressive Insurance Foundation averaged approximately \$4 million per year.

### Social Responsibility

Progressive uses an interactive online format to communicate our social responsibility efforts. This report can be found at: [progressive.com/socialresponsibility](http://progressive.com/socialresponsibility).

### Accounting Complaint Procedure

Any employee or other interested party with a complaint or concern regarding accounting, internal accounting controls, or auditing matters relating to Progressive may report such complaint or concern directly to the Chairman of the Audit Committee, as follows: Patrick H. Nettles, Ph.D., Chairman of the Audit Committee, [patrick\\_nettnles@progressive.com](mailto:patrick_nettnles@progressive.com).

Any such complaint or concern also may be reported anonymously over the following toll-free Alert Line: 1-800-683-3604 or online at: [www.progressivealertline.com](http://www.progressivealertline.com). Progressive will not retaliate against any individual by reason of his or her having made such a complaint or reported such a concern in good faith. View the complete procedures at: [progressive.com/governance](http://progressive.com/governance).

### Whistleblower Protections

Progressive will not retaliate against any officer or employee of Progressive because of any lawful act done by the officer or employee to provide information or otherwise assist in investigations regarding conduct that the officer or employee reasonably believes to be a violation of federal securities laws or of any rule or regulation of the Securities and Exchange Commission. View the complete Whistleblower Protections at: [progressive.com/governance](http://progressive.com/governance).

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